

FLAGSTAFF, ARIZONA



City of Flagstaff
Comprehensive Annual
Financial Report

Fiscal Year Ended
June 30, 2005

Comprehensive Annual Financial Report

For Fiscal Year Ended
June 30, 2005

City of Flagstaff, Arizona



Prepared By:
Management Services Department
Finance and Budget Division

City of Flagstaff
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2005

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City of Flagstaff

October 28, 2005

The Honorable Mayor, City Council and Citizens of the City of Flagstaff, Arizona

I am pleased to submit the Comprehensive Annual Financial Report (CAFR) for the City of Flagstaff, Arizona (City) for the fiscal year ended June 30, 2005, as required by Article VI, Section 5 of the City Charter. The report was prepared by the City's Finance Division in accordance with U.S. generally accepted accounting principles (GAAP) and audited in accordance with U.S. generally accepted auditing standards by a firm of licensed certified public accountants.

This report consists of management's representations concerning the finances of the City of Flagstaff. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Flagstaff has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City of Flagstaff's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Flagstaff's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Nordstrom & Associates, PC, a firm of licensed certified public accountants have audited the City of Flagstaff's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Flagstaff for the fiscal year ended June 30, 2005, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Flagstaff's financial statements for the fiscal year ended June 30, 2005, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Flagstaff was part of a broader, federally mandated “Single Audit” designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Flagstaff's separately issued Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Flagstaff's MD&A can be found immediately following the report of the independent auditors.

CITY OF FLAGSTAFF PROFILE

Flagstaff is located in Coconino County, Arizona at the intersection of Interstate 17 and Interstate 40. Flagstaff is the largest city in Northern Arizona and is the regional center and county seat for Coconino County, the second largest county in the 48 contiguous states. The current population as of the 2003 census is approximately 61,030. The City of Flagstaff became a town in 1894, incorporated as a city in 1928 and its boundaries currently encompass an area of just over 64 square miles. Flagstaff is nestled at the base of the San Francisco Peaks and is surrounded by one of the largest ponderosa pine forests on earth. Flagstaff drew its name from a very tall pine tree made into a flagpole in 1876 to celebrate our nation's centennial. At nearly 7,000 feet, Flagstaff is one of the highest elevation cities in the United States.

Flagstaff operates under a council-manager form of government as provided by its Charter. The Mayor is elected at large on a non-partisan ballot for a two-year term and six City Council members are elected at large on a non-partisan ballot for a four-year term. The City Council appoints the City Manager, who has full responsibility for carrying out Council policies and administering City operations. The City manager, in turn, appoints City employees and department heads under service procedures specified by Charter. City service departments provide a full range of services including General Government, police and fire protection, Environmental Services, Transportation, Library, Parks and Recreation, Airport, Water and Sewer, and Stormwater Services.

The annual budget serves as the foundation for Flagstaff's financial planning and control. The City Council formally adopts the budget and legally allocates, or appropriates, available monies for all funds and entities related to the City. All of these funds and entities are included in the basic financial statements. The City Manager submits to the Council each spring a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. Two public hearings are held prior to the budget's final adoption in order to obtain taxpayer comments. The budget is legally enacted through the passage of an ordinance. The ordinance sets the limit for expenditures during the fiscal year. The legal level of control for the budget is the department level. Additional expenditures may be authorized for unanticipated and/or inadequately budgeted events threatening the public health or safety as prescribed in the State Constitution, Article 9, Section 20.

FACTORS AFFECTING THE CITY'S FINANCIAL CONDITIONS

Local economy

The City's employment base continues to be heavily government based. Although this provides stability to the economy during declines, it is subject to other factors. This year the Arizona state retirement system again increased employee mandated contributions which effectively reduced local disposable incomes for individuals working for the City, County, Community College, Flagstaff Unified School District and to some extent Northern Arizona University. The City continues to see further development as a second home market to the residents of Phoenix and its surrounding areas. The City anticipates land development to slow as there are less residential lots available for construction and commercial land is at premium. However, despite these factors, at the time of this letter we have seen 3.9 % growth in our retail sales, excluding BBB. The strongest rebound was in the BBB category, which represents approximately, 17% of receipts. Receipts grew by 5.5% as a result of strong tourism in the region due to record breaking snowfall and the growth in population in Phoenix. Auto sales had a modest increase of 2.9% and commercial rentals increased 8.8%.

The Council goals have also provided for the expansion of the local Mall, which is a regional shopping center. The Mall expansion includes the construction of an Auto mall. Construction is anticipated to begin this next year with completion planned for 2007. This project is a real boom to the local economy. It is a known fact that there is a significant loss of sales tax revenues to the Phoenix area for many retail items. This is exemplified when a new retailer such as Home Depot opened its first store in town and we experienced real retail growth of 35% in the building materials category. The mall will be adding approximately 425,000 square feet of additional rental space and 33 new auto dealers to the market. Sales tax receipts will be benefited both in the of construction dollars spent at the mall and in additional retail sales.

LONG-TERM FINANCIAL PLANNING

The City's responsiveness to emerging economic challenges and its careful long-range planning have been key factors in Flagstaff's fiscal health.

STRATEGIC FINANCIAL PLAN

Flagstaff's financial plan requires many elements working in concert with one another. Some of these financial plan elements are financial resource planning, multi-year budget planning, strategic capital improvement project planning and debt management, all of which are further identified below. Currently, due to the tenuous economic recovery, Flagstaff's financial forecast includes very modest revenue growth, potential for State reductions of revenue sharing, and continued increases in demand for city services such as police, fire, transportation and social services. Financial Services management role will be to maintain and enhance the continued financial stability for the City of Flagstaff.

Financial Resource Planning – Strategic financial planning begins with determining the City's fiscal capacity based upon long-term financial forecasts of recurring available revenues. Financial forecasts coupled with financial trend analysis help preserve the fiscal well being of Flagstaff. Strategic financial capacity planning is a critical element to reach long-term financial stability goals and to determine special financial needs for critical objectives of the City Council.

Multi-Year Budget Planning – Multi-year budget planning encompasses long-range operating expenditure plans (including the operating impacts of capital projects), which are linked to the community expectations

and broad goals of the City Council. The multi-year approach provides a better opportunity for staff to change its financial paradigm from what do we need this year to how do we accomplish our service objectives over-time, given our financial capacity. While the City is required to adopt an annual budget to meet State statutory requirements, Flagstaff builds a financial plan for the next five years to help anticipate future impacts and ensure achievement of City objectives.

Strategic Capital Improvement Project Planning – Flagstaff Capital Improvement Projects are planned for five or more years and analyzed using City specific prioritization criteria. The operating cost impacts of projects are also planned and considered in developing future operating budget plans. Projects with significant operating impacts are carefully timed to avoid contingent liabilities, which future operating resources cannot meet. Pay-as-you-go funding sources are also conservatively estimated to avoid over-committing to capital construction using revenues that are not certain. To the extent debt financing is used and/or required capital project plans are sized to conform to existing debt management policies.

CASH MANAGEMENT POLICIES AND PRACTICES

The City's investment policy is to invest all temporarily idle cash in investments authorized by City resolution or State statute at the highest available interest rate while emphasizing safety of principal and liquidity. Excess funds are invested in the State Treasurer's Local Government Investment Pool (LGIP) and in obligations of the U.S. Treasury and its agencies, demand deposits and repurchase agreements. The maturities of the investments range from one day to 6 years. The average yield on investments was 2.83%.

RISK MANAGEMENT

The City maintains a self-insurance program for liability claims, unemployment compensation, health and workers' compensation. In addition, the City's Risk Management Division employs various risk control techniques, such as employee accident prevention training and inspection of City property and facilities, to minimize accident-related losses. Additional information on the City of Flagstaff risk management activity can be found in Notes.V.A in the notes to the financial statements.

PENSION AND OTHER POST-EMPLOYMENT BENEFITS

All full-time employees of the City are covered by one of three pension plans. The State Retirement System is for the benefit of the employees of the state and certain other governmental jurisdictions. All full-time City employees, except fire and police personnel, are included in the plan that is a multiple-employer, cost-sharing defined benefit pension plan. All police and fire personnel participate in the Public Safety Retirement System that is an agent multiple-employer plan. In addition, the Mayor and Council members contribute to the State's Elected Officials plan that is also a multiple-employer cost-sharing pension plan.

Additional information on the City of Flagstaff pension arrangements can be found in Note V.C. in the notes to the financial statements.

MAJOR INITIATIVES AND SERVICE EFFORTS AND ACCOMPLISHMENTS

During FY 2004–2005, Flagstaff continued work to maintain basic services while also fulfilling the City Council goals. These goals provide for strategies that move the community closer to economic viability and sustainable community objectives. The outcomes of these strategies have been many and in certain cases require sustained efforts over a period of time.

The following are the some of the goals of the Council and the City's' accomplishments in FY2004–2005.

Economic Development/Redevelopment

The City continues to coordinate closely on economic development activities with the Greater Flagstaff Economic Council (GFEC). An additional 64–fulltime jobs at or above the county median wages were created in addition to 183,000 square feet being added to existing industry with a capital investment value of \$11 million. Tourism continues as a mainstay industry in the community. Efforts included a publicity campaign to better inform tourist of conditions during fire and snow seasons and correct winter driving conditions through the “Clear the Road to Flagstaff” campaign. The industry saw a 5.2% increase in revenues.

On the redevelopment front, many projects are in progress. Between inception and implementation, redevelopment is a lengthy process. The Flagstaff Mall expansion received rezoning approval; this is a joint project that includes the establishment and reallocation of numerous auto dealers in the community. An RFP process was established to create a concept for redevelopment of the city's Southside area. This project becomes feasible in the next several years as a result of the construction of the Rio de Flag flood control project in concert with the Army Corp of Engineers.

Fiscal Health

The City was successful in adopting and publishing their five–year capital improvement plan. The City presented to the voters over \$155.1 million in new capital projects to be bond funded and received overwhelming approval. The projects include the relocation for four fire stations, construction of a new fire training center and fire tower, a new aquatic facility, land for new parks, a renovated or new multi generational recreation facility, water rights acquisition, additional water wells, renovation of the City wildcat wastewater treatment plant, and expansion of the USGS campus.

Public Safety

The City Council recognizes that the role of public safety encompasses a broad array of interrelated activities. Public order and quality of life issues must be addressed on a broad front through a partnership of shared responsibility and trust between Police, Fire, other city departments, civic organizations and the community. Community safety and well–being must be built from within each neighborhood and cannot be imposed from the outside. The City conducted numerous community activities that strengthen neighborhoods. These included 120 block watch meetings by the police, two citizen police academies, and the DARE and GREAT prevention programs in the public schools. Activities also include our partners. The City funds an after school program at various school district sites and works with United Way, whom supports numerous agencies in the community.

Affordable Housing

The goals are manifold to address affordable housing in a community with such a severe deficiency. The Council tackled the housing issue this last year from two angles, the formation of the workforce housing

policy task force and the Housing trust task force. Although the objectives of both coincide, they carry very diverse responsibilities. The Workforce housing policy task force is to determine regulatory changes and financing opportunities to tackle this affordability problem. The Housing trust task force is working on the details of implementation of the trust concept in our community for workforce housing. The issue continues to escalate as the City remains an attractive second home community for the 3.3million people who live and work in Phoenix.

Capital Improvements

Programmed capital infrastructure expenditures facilitate planned growth, economic development and protects existing community investments. Allocating resources through a coordinated planning and engineering process, with high levels of public involvement, assures our community is shaped in alliance with citizen support. The Capital Division worked on numerous projects through the year and continues to refine the process. Elements that were implemented included a schedule based work program, comprehensive 5-year CIP program, team chartering, project review process, and monthly financial reporting.

Customer Service

A positive customer service culture will enhance the delivery of service both externally and internally. Training was provided on customer service to all employees. Job description and employee evaluations were changed to incorporate customer service as a key element of job duties.

Planning for Growth

With a finite supply of land, we have to provide for the region's growth in a manner that balances growth and conservation.

Collaboration

Strengthens the community by strengthening partnerships with sovereign nations, public, non-profit and private agencies and developing collaborative goals at all levels. The City continues its role with the alliance group that is comprised of Coconino County, Northern Arizona University, Coconino Community College, and the Flagstaff Unified School District. The alliance group sponsored a statement this year to the state legislature supporting the funding of education as a primary goal to the success of the community and the vitality of economic development.

Quality of Life

Consideration is given to quality of life preservation and enhancement in all City actions and appropriations. This is a diverse objective with many outcomes. The City was successful in securing voter authority to purchase \$15 million in water rights to secure the community water needs. Recycling continues to grow increasing the tonnage at the materials recycling facility by 20%. The city also was successful in receiving authorization to issue \$7.6 million in bond financing for FUTS trail and open space land acquisition and \$14.7 million for a multi generational facility and aquatic center.

Major Initiatives – As with most organizations, major initiatives include the continuation of programs and initiation of new programs.

Organizational Support – This is an area that has received significant work program and staff efforts.

Succession Planning – Similar to other organizations, the City anticipates losing 25% of their senior staff in the next ten years. Human Resources have put a program in place to anticipate and plan for these retirements and to train the current workforce in the competencies necessary to promote within the organization.

Reorganizations – Due to some recent retirements the City has had the opportunity to review organization structure and work programs in one major department – Community Development and the Information Services Division.

The Community Development Department analyzed job alignment, job duties and working relationships within the department. This discussion included department staff, management and the public. The end result was a major change in process, responsibilities, and structure. The new department includes Community Improvements, Development Services and Community Investment. The department is poised to implement a major work program and process review to better meet the needs of the community and organization.

The new IS Director has implanted improved customer service and new work product delivery methods. Jobs were redefined and functions realigned to accomplish this.

Climate Survey – Human Resources engaged an independent contractor to conduct the first Climate Survey of all employees. The results of the survey will serve as a baseline for the organization. The staff Customer Service Team is working on Citywide and departmental actions in response to the survey to improve employee satisfaction through improved communications, rewards and recognition.

Forest Health

Flagstaff resides in the middle of the largest stand of Ponderosa pine in the world. This provides a key element to the City situated at the base of the San Francisco Peaks at 7,000 elevation a cool mountain environment. Unfortunately with this amenity comes the risk of catastrophic wildfire. The City was proactive in the implementation of a major forest health initiative. In fact, the City is recognized nationally for its successful program. The program includes active thinning on City property within the City, community outreach to educate and assist the private sector in good health management, assistance with other governmental agencies in forest management and collaboration with the Forest Service and environmental groups in a forest management plan for the areas in and around City property.

The outcome of the program has been an aggressive thinning of the forest and excellent public education resulting in private sector management of their trees. The Greater Flagstaff Forest Partnership, with collaboration of public, private and environmental groups, has successfully initiate major thinning projects in the Federal land that meets all parties' objectives.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Flagstaff for its comprehensive annual financial report for the fiscal year ended June 30, 2004. This was the 11th consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility.

The City also received the GFOA's award for Distinguished Budget Presentation for our 2004-2005 annual budget. In order to qualify for the Distinguished Budget Presentation award, the City's budget document was judged to be proficient in all categories, a Policy Document, a Financial Plan, an Operation Guide, and as a Communication Device.

A special word of appreciation is due to Barbara Goodrich, Finance Budget Manager and to the entire finance staff who prepared this CAFR. As an organization we would be remiss to not also personally recognize Maryellen Pugh, CPA for her tireless efforts in directing the statement drafting and coordination.

Acknowledgment should also be made for the interest and support received from members of the Mayor and Council, the office of the City Manager, and the willing cooperation of the other operating and staff departments of the City. The cooperative assistance of our independent auditor, Nordstrom and Associates, also contributed significantly to this report.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'Mary Jo Jenkins', with a long horizontal flourish extending to the right.

Mary Jo Jenkins
Management Services Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Flagstaff,
Arizona

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



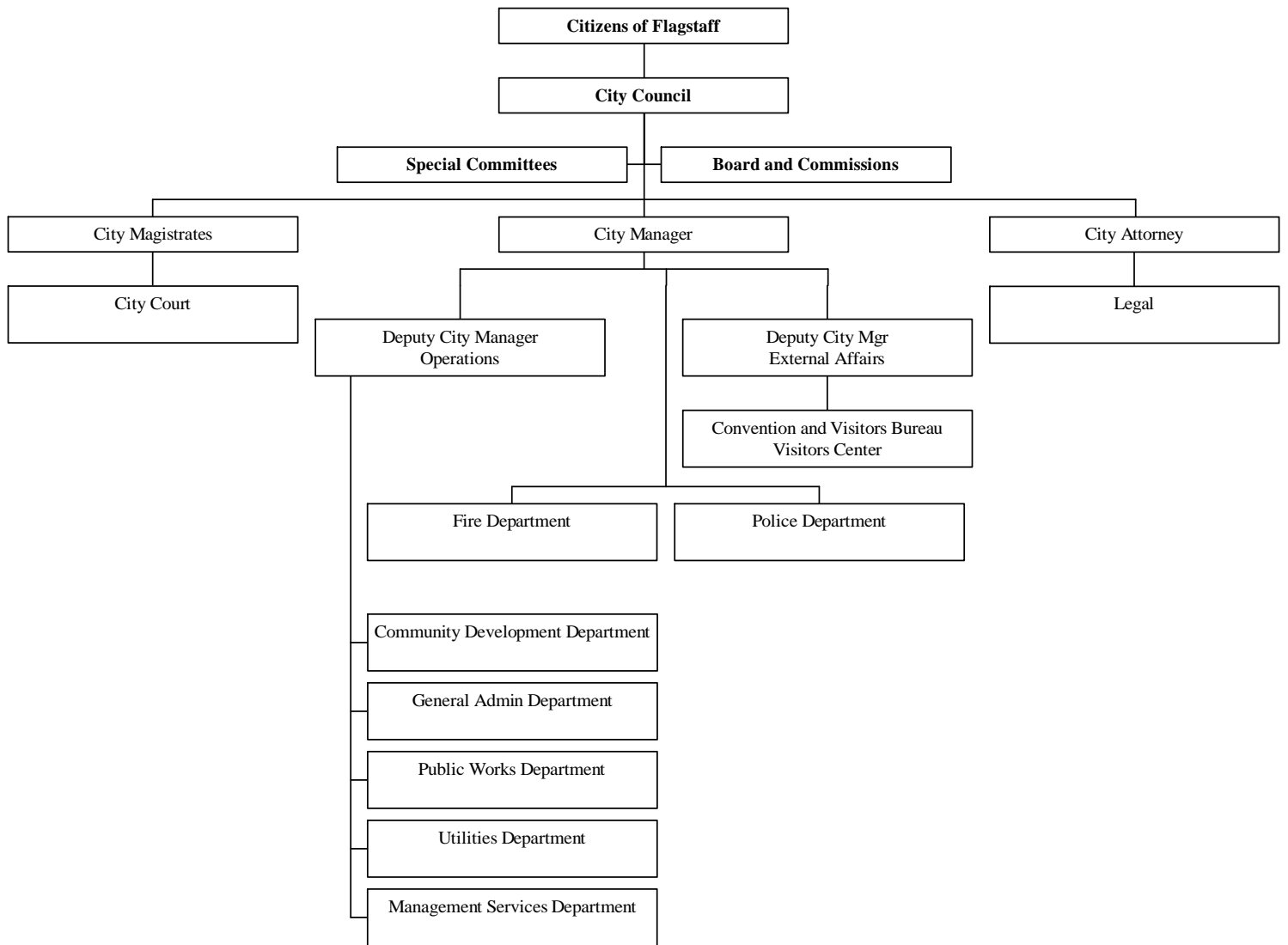
Nancy L. Zielke

President

Jeffrey R. Egan

Executive Director

City of Flagstaff



City of Flagstaff, Arizona
List of Elected and Appointed Officials
June 30, 2005

Elected Officials

Mayor	Joseph C. Donaldson
Vice Mayor	Al White
Councilmember	Art Babbott
Councilmember	Karen K. Cooper
Councilmember	Joseph P. Haughey
Councilmember	Kara M. Kelty
Councilmember	Libby Silva

Appointed Officials

City Manager	David W. Wilcox
City Attorney	Patricia Boomsma
City Treasurer	Mary Jo Jenkins
City Clerk	Margie Brown



Bruce J. Nordstrom, CPA

Godfrey C. Loper, Jr., CPA

Marjorie T. McClanahan, CPA

Timothy D. Hansen, CPA



MEMBERS

American Institute of
Certified Public Accountants

Arizona Society of Certified
Public Accountants

INDEPENDENT AUDITOR'S REPORT

**Honorable Mayor and Members of the City Council
City of Flagstaff, Arizona**

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of City of Flagstaff, Arizona (the City), as of and for the year ended June 30, 2005, as listed in the table of contents, which collectively comprise the City's basic financial statements. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of City of Flagstaff, Arizona, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof, and the budgetary comparison for the general, highway user, transportation and BBB funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City implemented the provisions of Governmental Accounting Standards Board (GASB) Statement 40, *Deposit and Investment Risk Disclosures*, for the year ended June 30, 2005, which represents a change in accounting principles.

The management's discussion and analysis on pages 3 through 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. In addition, the introductory section, combining and individual fund statements and schedules, capital assets schedules, and statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and schedules, and capital assets schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2005 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Nordstrom & Associates, P.C.

Flagstaff, Arizona
OCTOBER 7, 2005

MANAGEMENT DISCUSSION AND ANALYSIS

As management of the City of Flagstaff (the City), we offer readers of the City's financials statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages iii –x of this report.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$352.5 million (net assets). Of this amount \$81.3 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$27.9 million during the fiscal year. This increase is related to capital improvement activity funded primarily through capital grants or other new funding, including the 4th Street Overpass project (\$8.9 million), airport improvements (\$4.5 million), waterline improvements (\$2.2 million), Wildcat Plant upgrades (\$1.2 million), and contributions from private development (\$8.7 million).
- As of June 30, 2005, the City's governmental funds reported combined ending fund balances of \$63.9 million, an increase of \$1.7 million in comparison with the prior fiscal year. Approximately 97.3% of this total amount (\$62.2 million) is unreserved fund balance available for spending at the government's discretion.
- As of June 30, 2005, total unreserved fund balance for the general fund was \$29.1 million, or 82.3% of total general fund expenditures (\$35.4 million)
- As of June 30, 2005, the City's proprietary funds reported combined total net assets of \$228.7 million, and total unrestricted net assets of \$24.9 million. \$20.1 million of the unrestricted net assets are in the Water and Wastewater Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: (1) **Government-wide** financial statements, (2) **Fund** financial statements, and (3) **Notes** to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The **statement of net assets** presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The **statement of activities** presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods such as revenues pertaining to uncollected taxes and earned but unused vacation leave.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental

activities of the City include Police, Fire, Community Development, Parks and Recreation, City Council, City Manager, City Attorney, Municipal Courts, Human Resources, Risk Management, Information Services, Library, and Economic Development. The business-type activities of the City include Water and Wastewater, Airport, Environmental Services, and Stormwater operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also for the Municipal Property Corporation (MPC). The MPC, although also legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government as a blended component unit.

The government-wide financial statements can be found on pages 15–17 of this report.

Fund financial statements

The fund financial statements are designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: **governmental** funds, **proprietary** funds, and **fiduciary** funds.

Governmental funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains several individual government funds organized according to their type (special revenue and debt service). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund, Highway User Revenue fund, Transportation fund, and the BBB fund which are all considered to be major funds. Data from the remaining governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General fund, Special Revenue funds, Debt Service funds, and Enterprise funds. A budgetary comparison statement has been provided for the General and other major governmental funds to demonstrate compliance with the respective budgets.

The basic governmental fund financial statements can be found on pages 18–28 of this report.

Proprietary funds: Proprietary funds are generally used to account for services for which the City charges customers – either outside customers, or departments of the City. Proprietary funds provide the same type of information shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary funds:

- **Enterprise funds** are used to report the same function presented as business-type activities in the government-wide financial statements. The City used enterprise funds to account for its Water and Wastewater, the Airport, Environmental Services which includes solid waste collection, and Stormwater. Water and Wastewater, the Airport, and Environmental Services are considered to be major funds of the City.
- **Internal Service funds** are used to report activities that provide supplies and services for certain City programs and activities. The City uses an internal service fund to account for its workers compensation, health insurance, other risk related activity including claims adjustment, and general liability and property insurance. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service fund is combined into a single, aggregated presentation in the proprietary fund statements. Individual fund data for the internal service fund is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 30–37 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 38–39 of this report.

Notes to the Financial Statements

The notes to the financial statement provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 41–72 of this report.

Combining statements

The combining statements referred to earlier in connection with non-major governmental funds are presented on pages 74–77.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's capital asset activity. Required supplementary information can be found on page 80–82 of this report.

GOVERNMENT WIDE STATEMENTS FINANCIAL ANALYSIS

Analysis of Net Assets

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by \$352.5 million as of June 30, 2005.

Of the City's net assets, 70.1% reflects its investment of \$247.3 million in capital assets (e.g. land, buildings, and equipment), less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

Net Assets
June 30, 2005 and 2004 (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 82,721	\$ 82,122	\$ 42,313	\$ 43,032	\$ 125,034	\$ 125,154
Capital assets	104,441	93,420	230,766	215,398	335,207	308,818
Total assets	<u>187,162</u>	<u>175,542</u>	<u>273,079</u>	<u>258,430</u>	<u>460,241</u>	<u>433,972</u>
Long-term liabilities	49,701	50,601	33,239	33,541	82,940	84,142
Other liabilities	13,638	14,436	11,140	10,772	24,778	25,208
Total liabilities	<u>63,339</u>	<u>65,037</u>	<u>44,379</u>	<u>44,313</u>	<u>107,718</u>	<u>109,350</u>
Invested in capital assets, net of related debt	46,760	41,667	200,551	184,864	247,311	226,531
Restricted	20,670	35,343	3,201	5,161	23,871	40,504
Unrestricted	56,393	33,495	24,949	24,092	81,342	57,587
Total net assets	<u>\$ 123,823</u>	<u>\$ 110,505</u>	<u>\$ 228,701</u>	<u>\$ 214,117</u>	<u>\$ 352,524</u>	<u>\$ 324,622</u>

A portion of the City's net assets, \$23.9 million (6.8%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$81.3 million (23.1%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the government as a whole, as well as for the business-type activities.

Current assets for governmental activities remained relatively equal, with less than a 1% increase (\$0.6 million). Capital assets of the governmental activities, funded through debt proceeds and contributions, increased by 11.7% (\$11.0 million) due to the 4th Street project and other contributed infrastructure from the private sector (\$8.9 million and \$5.1 million, respectively). Both long-term liabilities and other liabilities decreased slightly (1.8% and 5.5% respectively) due to debt retirement and an overall reduction in year-end payables.

Overall business-type net assets increased by 6.8% (\$14.6 million) also due primarily to capital asset additions including the transfer of the Rio de Flag project to the Stormwater fund and a number of contributions from private development for infrastructure (\$3.7 million).

Analysis of Change in Net Assets

The City's overall net assets increased by \$27.9 million during the current fiscal year. These increases are explained in the government and business-type activities discussion to follow.

Changes in Net Assets For the Years Ended June 30, 2005 and 2004 (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues						
Program Revenues:						
Charges for services	\$ 6,327	\$ 5,424	\$ 27,465	\$ 26,372	\$ 33,792	\$ 31,796
Operating grants and contributions	4,148	2,679	574	287	4,722	2,966
Capital grants and contributions	15,180	11,757	8,165	10,483	23,345	22,240
General Revenues:						
Property taxes	8,462	7,932	-	-	8,462	7,932
Sales taxes	27,054	25,683	-	-	27,054	25,683
State shared taxes	12,838	12,123	-	-	12,838	12,123
Unrestricted investment earnings	1,704	811	936	719	2,640	1,530
Other	678	1,773	514	17	1,192	1,790
Total revenues	<u>76,391</u>	<u>68,182</u>	<u>37,654</u>	<u>37,878</u>	<u>114,045</u>	<u>106,060</u>
Expenses						
General government	5,442	5,892	-	-	5,442	5,892
Public safety	21,018	18,793	-	-	21,018	18,793
Public works	1,320	1,178	-	-	1,320	1,178
Economic and physical development	6,807	6,473	-	-	6,807	6,473
Culture and recreation	9,427	8,694	-	-	9,427	8,694
Highways and streets	10,011	8,887	-	-	10,011	8,887
Interest on long-term debt	2,043	1,923	-	-	2,043	1,923
Water and wastewater	-	-	17,297	17,250	17,297	17,250
Environmental	-	-	8,549	7,320	8,549	7,320
Airport	-	-	3,750	3,370	3,750	3,370
Stormwater	-	-	480	461	480	461
Total expenses	<u>56,068</u>	<u>51,840</u>	<u>30,076</u>	<u>28,401</u>	<u>86,144</u>	<u>80,241</u>
Increase in net assets before transfers	20,323	16,342	7,578	9,477	27,901	25,819
Transfers	(7,005)	(369)	7,005	369	-	-
Change in net assets	13,318	15,973	14,583	9,846	27,901	25,819
Net assets at beginning of year	110,505	94,532	214,117	204,271	324,622	298,803
Net assets at end of year	<u>\$ 123,823</u>	<u>\$ 110,505</u>	<u>\$ 228,700</u>	<u>\$ 214,117</u>	<u>\$ 352,523</u>	<u>\$ 324,622</u>

Governmental activities.

Governmental activities increased the City's net assets by \$13.3 million, accounting for 47.7% of the total growth in the net assets of the City. The key factors for this increase are as follows:

- Grants and contributions have increased due to increased expenditures for Homeland Security, Community Development Block Grants (CDBG), and the Metropolitan Planning Organization. In addition, capital assets recorded in excess of \$5 million in donated assets.
- Property tax increases are due to both to increases in housing inventory on the property tax roles along with community-wide housing price increases.
- Sales tax revenues continued to increase at both local and state levels. State sales tax levels had decreased significantly in the post-9/11 environment and finally have caught back up with revenue levels demonstrated four years ago. Bed, Board, and Booze (BBB) taxes have also reached and exceeded prior levels after two years

of declining revenues. Historically, City sales tax has maintained a constant level of growth and this trend continues.

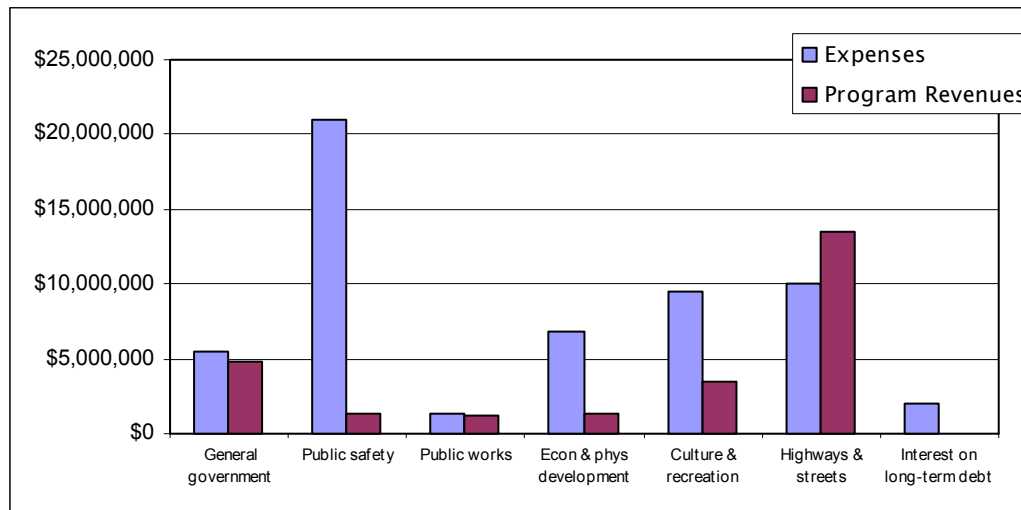
- Unrestricted investment earnings are also normalizing with rates increasing to an average of over 2.8%.
- In addition several large capital projects had to carryover budgeted balances due to the timing of the progress in those projects including the East Flagstaff Gateway (\$7.6 million), 4th Street rail crossing (\$1.2 million), and redevelopment land acquisition (\$2.1 million).

Business-type activities

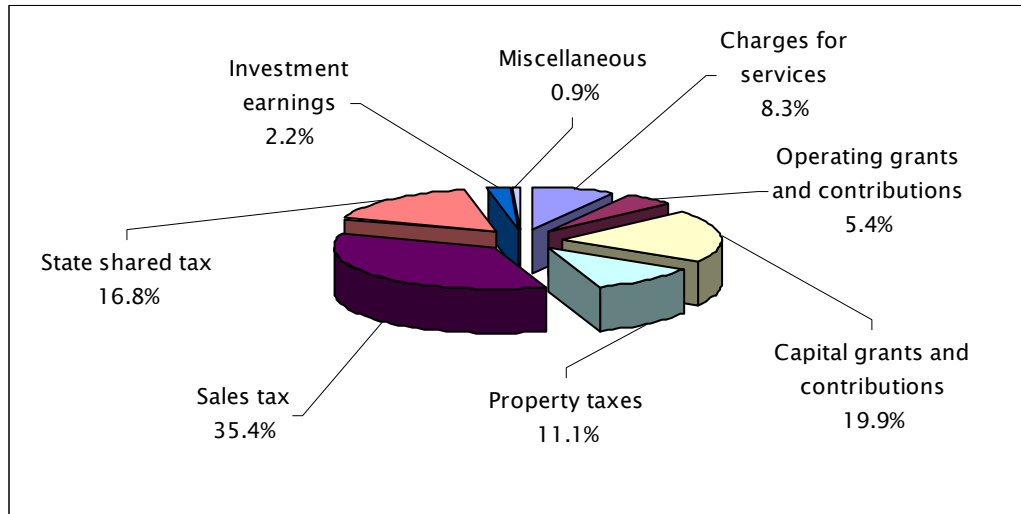
Business type activity had net asset growth of \$14.6 million, accounting for 52.3% of the total growth in the net assets to the City. The key factors for this increase include:

- The transfer of approximately \$6 million of Work in Progress (WIP) from the governmental funds into the Stormwater fund. Stormwater now has full oversight responsibility to complete the Rio de Flag project.
- The addition of approximately \$3.7 million in capital contributions
- The carryover of several large capital projects including water wells (\$2.0 million), the Wildcat Plant upgrades (\$9.3 million), and the Rio de Flag project (\$7.4 million).

Expenses and Program Revenues – Governmental Activities



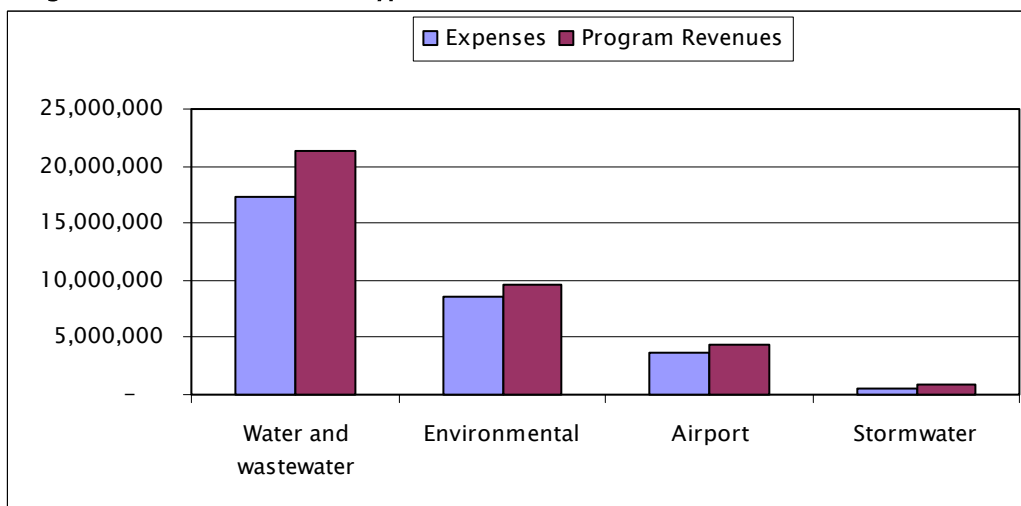
Revenues by Source – Governmental Activities



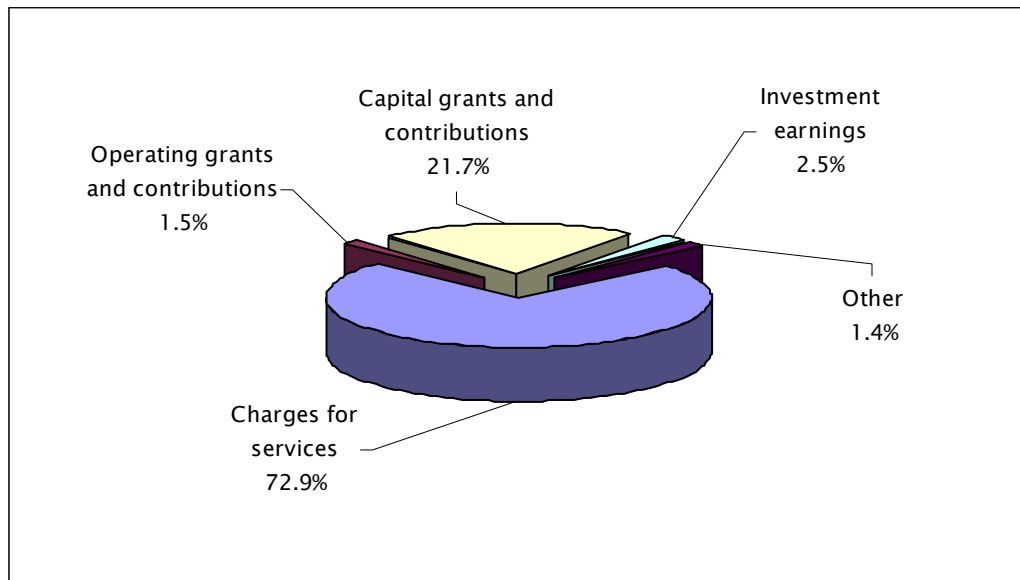
The previous two charts illustrate the City's governmental expenses and revenues by function and its revenues by source. As shown, Public safety is the largest function in expense (37.5%), followed by Highways & streets (17.9%), Culture and recreation (16.8%), and Economic and physical development (12.1%). General revenues such as sales taxes, state shared taxes, and property taxes are not shown by program, but are effectively used to support program activities citywide. For governmental activities overall, without regard to program, sales taxes are the largest single source of funds (35.4%), followed by capital grants and contributions (19.9%), and state shared taxes (16.8%).

For the most part, increases in expenses paralleled inflation and growth in the demand for services. However, higher expense increases occurred in three areas; Highways and streets (12.7%), public works (12.1%), and public safety (11.8%). Highway and street growth continues to be attributable to the 4th Street Project. Public works increases are related to increased spending for facility maintenance, and public safety increases are driven by increases in retirement contributions and replacement vehicle purchases.

Expenses and Program Revenues – Business Type Activities



Revenues by Source – Business-type activities



As shown in the previous chart, Water and Wastewater has expenses of \$17.3 million for the fiscal year, followed by Environmental Services with \$8.5 million, the Airport with \$3.7 million and Stormwater with \$0.5 million. For the fiscal year, revenues exceeded expense in all business type activities. The Water and Wastewater, Environmental Services and Stormwater funds received the majority of their program revenues through charges for services (76.2%, 97.9% and 77.1%, respectively). The Airport receives 26.6% of support through charges for service and the other 73.4% through grants and contributions. Charges for services provided the largest share of revenues (72.9%) for all of the business-type activities, followed by capital grants and contributions (21.7%).

Environmental Services expenses increased by 16.8% (\$1.2 million) in comparison with FY 2004. This increase is due to increased staffing needed to meet growing service area needs, the inception of a brown fields program, and the accumulation of expense related to the landfill post-closure costs.

The Airport fund realized a 136.1% revenue increase which is directly attributable to an increase in the grant revenue received for the fiscal year.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of Governmental funds reported by the City include the General fund, Special Revenue funds, and Debt Service funds.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$63.9 million, an increase of \$1.7 million in comparison with the prior year. Approximately \$62.2 million of the

total ending fund balance constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to pay debt service (\$2.5 million), (2) for inventory reserve (\$200,401), and perpetual care (\$44,872).

Revenues for governmental functions overall totaled \$71.1 million in the fiscal year ended June 30, 2005 which represents an increase of 11.3% or \$7.2 million from the fiscal year ended June 30, 2004. While the total dollars are relatively equal, variances existed within categories. Sales taxes (including the general sales tax, the transportation tax, and the BBB tax) increased by 5.3% (\$1.8 million) due to a combination of economic growth and a rebound in tourist trade. Intergovernmental revenues grew by 44.3% (\$5.4 million) due to the receipt of \$2 million from the Arizona Department of Transportation for the street turnbacks received and the increase in state and federal grant funding (\$3.0 million).

Expenditures for governmental functions, totaling \$74.1 million, increased by 1.9% (\$1.4 million) from the fiscal year ended June 30, 2004. In the fiscal year ended June 30, 2005 expenditures for governmental functions exceeded revenues by approximately \$3.0 million. Overall debt service (principal and interest) decreased by 1.7% (\$1.3 million) as the payments of regularly scheduled principal and interest exceeded the new issues for FY 2005.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$29.1 million. As a measure of liquidity, it may be useful to compare both total unreserved, undesignated fund balance and total fund balance to total fund expenditures. The unreserved, undesignated fund balance and total fund balance represent 82.3% and 82.9%, respectively, of general fund expenditures.

The fund balance in the City's General Fund increased by \$6.2 million during the fiscal year mainly due to under expenditure in operations, the carryover of funds for redevelopment efforts (\$2.1 million) and the receipt of \$3.8 million in capital lease proceeds. Overall, the General Fund's performance resulted in revenues in excess of expenditures in the fiscal year ended June 30, 2005 of \$4.1 million. This is an increase of approximately \$3.1 million over the comparable figure from the prior year of \$1.0 million.

The Highway User Revenue Fund increased by \$4.1 million during the fiscal year due to the receipt of \$2.0 million from ADOT to complete the turnback transaction and to bring associated roads to standard and the ongoing inflow of funds to complete budgeted capital projects. The Transportation Fund and the BBB Fund decreased by \$10.4 million and \$0.3 million, respectively, which represents a planned usage of fund balance for capital projects.

Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the fiscal year, the unrestricted net assets had positive balances for all four proprietary funds. The internal service fund, which is used to account for risk management and health insurance activities, had unrestricted net assets of \$4.5 million.

The total growth in net assets for the proprietary funds was \$14.6 million. Factors concerning the finances of these funds have been addressed previously in the discussion of the City's business-type activities.

Fiduciary funds

The City maintains fiduciary funds for the assets of the Firemen's Pension Trust Fund. As of June 30, 2005, the net assets had decreased by \$1,608.

Budget Highlights

The City's final budget differs from the original budget for certain divisions within the General fund and the BBB fund even though the overall original budget remained the same. Council approved transfers from the contingency funds for the following divisions:

General fund contingency transfer:

\$ 70,000	City Clerks Office – election costs
40,000	Information Technology – disaster recovery efforts
20,000	Management Services – retirement payout
25,000	Finance & Budget – retirement payout
35,000	Community Development – retirement payout
250,000	Police grants – acceptance of unbudgeted awards
<u>60,000</u>	Shop – decrease in shop charge outs
<u>\$500,000</u>	

BBB fund contingency transfer:

<u>\$ 20,000</u>	Visitor Center – staffing costs
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Capital Assets and Debt Administration

Capital Assets

The City's capital assets (net of accumulated depreciation) for its governmental and business-type activities as of June 30, 2005 amount to \$335.2 million. Capital assets include land, buildings, infrastructure, improvements, machinery and equipment, and construction in progress. The total increase in the City's capital assets for the current year was 8.5% (\$26.4 million). The following table reflects the capital assets at the end of the fiscal year:

Capital Assets, Net of Depreciation
June 30, 2005 and 2004 (in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 9,037	\$ 9,889	\$ 2,357	\$ 2,357	\$ 11,394	\$ 12,246
Buildings	25,801	25,501	46,448	47,641	72,249	73,142
Improvements	6,721	7,302	158,361	150,954	165,082	158,256
Machinery and equipment	8,219	8,462	8,563	7,929	16,782	16,391
Infrastructure	23,243	15,581	–	–	23,243	15,581
Construction in progress	31,420	26,685	15,037	6,517	46,457	33,202
Total	<u>\$ 104,441</u>	<u>\$ 93,420</u>	<u>\$ 230,766</u>	<u>\$ 215,398</u>	<u>\$ 335,207</u>	<u>\$ 308,818</u>

Major capital asset events during the current fiscal year included a 49.2% increase in infrastructure (primarily donated capital) and an 39.9% increase in construction in progress (predominantly the 4th Street project).

For government-wide financial statement presentation, all depreciable capital assets are depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures. Please refer to Note IV C on pages 57–59 of the Notes to the Financial Statements for further information regarding capital assets.

Long Term Debt

At the end of the current fiscal year, the City had total long-term debt outstanding of \$77.6 million. Of this amount, \$23.2 million is general obligation bonds backed by the full faith and credit of the City, \$17.6 million is revenue bonds, \$0.4 million is improvement district bonds, \$26.9 million is for the Municipal Facility Corporation, and \$9.5 million are outstanding leases or loans for the airport, water/wastewater, and city-wide energy conservation improvements.

Outstanding Debt
June 30, 2005 and 2004 (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation bonds	\$ 4,285	\$ 5,795	\$ 18,880	\$ 21,253	\$ 23,165	\$ 27,048
Special assessment bonds	415	685	–	–	415	685
Revenue bonds	11,555	13,380	6,035	6,290	17,590	19,670
Other debt	26,895	28,170	–	–	26,895	28,170
Lease/Loans	3,800	–	5,763	3,380	9,563	3,380
Total debt payable	<u>\$ 46,950</u>	<u>\$ 48,030</u>	<u>\$ 30,678</u>	<u>\$ 30,923</u>	<u>\$ 77,628</u>	<u>\$ 78,953</u>

During fiscal year 2005, the City's total bonded debt decreased by approximately \$1.3 million. The City entered into a \$3.8 million capital lease obligation to fund energy improvements throughout the City. The debt retirement exceeded the debt obligation in all other bond categories.

The State constitution imposes certain debt limitations on the City of six percent (6%) and twenty percent (20%) of the outstanding assessed valuation of the City. The City's available debt margin at June 30, 2005 is \$32.2 million in the 6% category and \$89.7 million in the 20% capacity. Additional information on the debt limitations and capacities may be found in Table XI in the statistical section of this report.

During the year, the City maintained the following bond ratings:

City of Flagstaff Bonded Debt Ratings
As of June 30, 2005

	Moody's Investors Service	Standard & Poor's
General Obligation	AAa3	A+
Water and Sewer Revenue	A-1	A
Street and Highway Revenue	A-1	A+

Additional information on the City's long-term debt can be found in Section IV F of the Notes to the Financial Statements.

Economic Factors and Next Year's Budget and Rates

The Fiscal Year 2005/2006 budget preparation was influenced by the following factors:

- Limited revenue growth within improving economic conditions
- Maintenance of level expenditures while minimizing the impact to health and/or safety services
- Maintenance of employee increases to minimize take home impacts after increased deductions due to other employment benefit changes
- Restoration of positions previously eliminated due to budget cuts/declining economy
- Staffing additions to address current workload and council priorities
- Assessment and funding of long range capital needs and their associated operational impacts
- Sustained investment in our community to better insure against economic downturns in the future

Requests for Information

The financial report is designed to provide a general overview of the City's finances for all of those with an interest in the government's finances. If you have questions about this report or need additional financial information, contact:

City of Flagstaff
Management Services Department
Finance and Budget Division
211 W. Aspen
Flagstaff, AZ 86001

Main and TDD (928) 774-5281
Arizona Relay 7-1-1

CITY OF FLAGSTAFF, ARIZONA
Statement of Net Assets
June 30, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 56,046,852	\$ 26,429,041	\$ 82,475,893
Cash with fiscal agents	5,644,807	3,239,621	8,884,428
Investments	4,365	688,651	693,016
Accounts receivables, net	7,555,164	2,961,256	10,516,420
Interest receivable	313,016	198,737	511,753
Intergovernmental receivable	1,559,676	494,315	2,053,991
Bond proceeds receivable	182,365	–	182,365
Special assessments receivable	33,950	–	33,950
Internal balance	440,504	(440,504)	–
Inventory	220,095	274,515	494,610
Deferred bond issuance costs, net	473,172	497,066	970,238
Restricted assets:			
Temporarily restricted:			
Cash and cash equivalents	10,246,503	7,970,841	18,217,344
Capital assets:			
Non-depreciable	40,457,457	17,394,195	57,851,652
Depreciable, net	63,983,610	213,371,503	277,355,113
Total assets	187,161,536	273,079,237	460,240,773
LIABILITIES			
Accounts payable	2,690,388	999,586	3,689,974
Accrued payroll	1,069,396	216,222	1,285,618
Interest payable	1,035,042	–	1,035,042
Deferred revenue	607,213	88,302	695,515
Deposits payable	1,415,003	596,499	2,011,502
Matured bonds and lease payable	4,610,000	–	4,610,000
Unamortized bond premium	1,082,533	143,191	1,225,724
Liabilities payable from restricted assets	1,128,299	9,095,376	10,223,675
Noncurrent liabilities:			
Due within one year:			
Compensated absences	1,056,055	193,167	1,249,222
Special assessment bonds	75,000	–	75,000
Bonds, notes and leases payable	3,985,448	3,234,976	7,220,424
Due in more than one year:			
Compensated absences	1,694,596	287,080	1,981,676
Landfill closure and postclosure care costs	–	2,081,006	2,081,006
Special assessment bonds	340,000	–	340,000
Bonds, notes and leases payable	42,549,552	27,443,246	69,992,798
Total liabilities	63,338,525	44,378,651	107,717,176
NET ASSETS			
Invested in capital assets, net of related debt	46,759,889	200,551,217	247,311,106
Restricted for:			
Capital projects	18,142,376	2,459,659	20,602,035
Debt service	2,481,583	740,862	3,222,445
Perpetual care:			
Expendable	1,426	–	1,426
Nonexpendable	44,872	–	44,872
Unrestricted	56,392,865	24,948,848	81,341,713
Total net assets	\$ 123,823,011	\$ 228,700,586	\$ 352,523,597

The notes to the financial statements are an integral part of this statement

CITY OF FLAGSTAFF, ARIZONA
Statement of Activities
Year Ended June 30, 2005

		Program Revenues		
		Charges for	Operating Grants and	Capital Grants and
	Expenses	Services	Contributions	Contributions
Primary government				
Governmental activities:				
General government	\$ 5,441,945	\$ 3,611,862	\$ 125,606	\$ 1,073,386
Public safety	21,018,114	498,506	685,237	141,472
Public Works	1,320,459	1,213,714	-	-
Economic and physical development	6,807,311	321,915	1,011,446	-
Culture and recreation	9,426,600	680,755	2,238,786	592,256
Highways and streets	10,011,231	-	86,454	13,373,287
Interest on long-term debt	2,042,555	-	-	-
Total governmental activities	<u>56,068,215</u>	<u>6,326,752</u>	<u>4,147,529</u>	<u>15,180,401</u>
Business-type activities:				
Water and wastewater	17,297,017	16,223,648	43,053	5,031,858
Environmental	8,548,715	9,370,561	123,339	80,474
Airport	3,749,669	1,176,866	406,590	2,846,472
Stormwater	479,700	694,161	1,394	205,971
Total business-type activities	<u>30,075,101</u>	<u>27,465,236</u>	<u>574,376</u>	<u>8,164,775</u>
Total primary government	<u><u>\$ 86,143,316</u></u>	<u><u>\$ 33,791,988</u></u>	<u><u>\$ 4,721,905</u></u>	<u><u>\$ 23,345,176</u></u>

General revenues:

- Property taxes, levied for general purposes
- Property tax, levied for debt service
- Sales taxes
- State shared sales taxes
- Investment earnings
- Miscellaneous
- Gain on sale of capital assets
- Contributions to permanent fund
- Transfers in (out)
- Total general revenues, contributions and transfers
- Change in net assets
- Net assets – beginning
- Net assets – ending

The notes to the financial statements are an integral part of this statement

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (631,091)	\$ -	\$ (631,091)
(19,692,899)	-	(19,692,899)
(106,745)	-	(106,745)
(5,473,950)	-	(5,473,950)
(5,914,803)	-	(5,914,803)
3,448,510	-	3,448,510
(2,042,555)	-	(2,042,555)
(30,413,533)	-	(30,413,533)
-	4,001,542	4,001,542
-	1,025,659	1,025,659
-	680,259	680,259
-	421,826	421,826
-	6,129,286	6,129,286
(30,413,533)	6,129,286	(24,284,247)
3,613,367	-	3,613,367
4,848,935	-	4,848,935
27,054,164	-	27,054,164
12,837,838	-	12,837,838
1,703,861	935,973	2,639,834
277,972	-	277,972
382,387	513,738	896,125
17,765	-	17,765
(7,004,365)	7,004,365	-
43,731,924	8,454,076	52,186,000
13,318,391	14,583,362	27,901,753
110,504,620	214,117,224	324,621,844
\$ 123,823,011	\$ 228,700,586	\$ 352,523,597

CITY OF FLAGSTAFF, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2005

	General Fund	Highway User Revenue Fund	Transportation Fund
ASSETS			
Cash and cash equivalents	\$ 23,331,847	\$ 7,116,152	\$ 6,212,498
Cash with fiscal agents	379,418	2,110,955	1,518,590
Investments	-	-	-
Accounts receivable, net	3,636,522	2,259,235	833,996
Interest receivable	132,438	43,662	41,993
Intergovernmental receivables	740,920	86,455	-
Interfund receivable	1,500,000	-	-
Bond proceeds receivable	182,365	-	-
Special assessments receivable	-	-	-
Inventory	200,402	-	-
Restricted cash and cash equivalents	3,906,921	-	6,321,817
Total assets	<u>\$ 34,010,833</u>	<u>\$ 11,616,459</u>	<u>\$ 14,928,894</u>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ 560,152	\$ 443,404	\$ 1,047,650
Accrued payroll and compensated absences	1,517,881	82,655	-
Current bonds payable	275,000	1,825,000	1,000,000
Interest payable	104,418	285,955	518,550
Interfund payable	-	-	-
Deferred revenue	743,061	8,575	-
Guaranty and other deposits	1,415,003	-	-
Liabilities payable from restricted assets	70,122	-	-
Total liabilities	<u>4,685,637</u>	<u>2,645,589</u>	<u>2,566,200</u>
Fund balances:			
Reserved for:			
Debt service	-	-	-
Capital projects	-	-	-
Inventory	200,401	-	-
Perpetual care	-	-	-
Unreserved, undesignated, reported in:			
General fund	29,124,795	-	-
Special revenue funds	-	8,970,870	12,362,694
Permanent fund	-	-	-
Total fund balances	<u>29,325,196</u>	<u>8,970,870</u>	<u>12,362,694</u>
Total liabilities and fund balances	<u>\$ 34,010,833</u>	<u>\$ 11,616,459</u>	<u>\$ 14,928,894</u>

The notes to the financial statements are an integral part of this statement

BBB Fund	Other Governmental Funds	Total Governmental Funds
\$ 6,064,463	\$ 8,696,471	\$ 51,421,431
-	1,635,844	5,644,807
4,365	-	4,365
549,738	159,975	7,439,466
30,331	37,940	286,364
-	732,301	1,559,676
-	-	1,500,000
-	-	182,365
-	33,950	33,950
19,693	-	220,095
-	17,765	10,246,503
<u>\$ 6,668,590</u>	<u>\$ 11,314,246</u>	<u>\$ 78,539,022</u>
\$ 190,066	\$ 178,479	\$ 2,419,751
27,380	79,997	1,707,913
-	1,510,000	4,610,000
-	126,119	1,035,042
-	1,500,000	1,500,000
13,100	33,950	798,686
-	-	1,415,003
-	1,058,177	1,128,299
<u>230,546</u>	<u>4,486,722</u>	<u>14,614,694</u>
-	2,481,583	2,481,583
-	(970,005)	(970,005)
-	-	200,401
-	44,872	44,872
-	-	29,124,795
6,438,044	5,269,648	33,041,256
-	1,426	1,426
<u>6,438,044</u>	<u>6,827,524</u>	<u>63,924,328</u>
<u>\$ 6,668,590</u>	<u>\$ 11,314,246</u>	<u>\$ 78,539,022</u>

CITY OF FLAGSTAFF
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

Fund balances – total governmental funds balance sheet \$ 63,924,328

Amounts reported for governmental activities in the statements of
net assets are different because (also see note 2):

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the governmental funds.

Governmental capital assets	136,723,427	
Less: accumulated depreciation	<u>(32,282,360)</u>	104,441,067

Other assets used in governmental activities are not financial resources
and therefore are not reported in the governmental funds.

Deferred bond issue costs	473,172	
Fines and forfeitures	<u>47,775</u>	520,947

Long-term liabilities, including bonds payable are not due and payable
in the current period and therefore are not reported in the governmental
funds.

Governmental bonds payable	46,950,000	
Bond premium	1,082,533	
Compensated absences	<u>2,112,134</u>	(50,144,667)

Certain revenues are not available to pay for current period expenditures
and, therefore, are deferred in the governmental funds.

Special assessments	33,950	
Property tax	<u>157,523</u>	191,473

The internal service fund is used by management to charge the cost of
self insurance programs to individual funds.

The assets and liabilities of the internal service funds that are reported with governmental activities.		<u>4,889,863</u>
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Net assets of governmental activities – statement of net assets	<u><u>\$ 123,823,011</u></u>
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The notes to the financial statements are an integral part of this statement



CITY OF FLAGSTAFF, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2005

	<u>General Fund</u>	<u>Highway User Revenue Fund</u>	<u>Transportation Fund</u>
REVENUES:			
Taxes	\$ 18,710,442	\$ -	\$ 7,631,557
Intergovernmental	12,844,978	2,000,000	-
Grants and entitlements	1,102,669	8,064,371	-
Charges for services	1,518,445	-	-
Special assessments	-	-	-
Licenses and permits	2,063,718	-	-
Fines and forfeitures	1,250,494	-	-
Rents	1,213,714	-	-
Investment earnings	597,206	165,963	375,880
Contributions	2,400	2,064	-
Miscellaneous	161,799	63,929	-
Total revenues	<u>39,465,865</u>	<u>10,296,327</u>	<u>8,007,437</u>
EXPENDITURES:			
Current:			
General governmental	6,158,308	-	-
Public safety	19,140,415	-	-
Public works	1,005,745	-	-
Economic and physical development	3,469,621	-	-
Culture and recreation	3,965,063	-	-
Highways and streets	-	7,018,407	1,864,006
Debt service:			
Principal retirement	275,000	1,825,000	1,000,000
Interest and other charges	254,059	573,830	1,039,600
Capital outlay	1,117,640	3,952,878	8,874,348
Total expenditures	<u>35,385,851</u>	<u>13,370,115</u>	<u>12,777,954</u>
Excess (deficiency) of revenues over expenditures	<u>4,080,014</u>	<u>(3,073,788)</u>	<u>(4,770,517)</u>
OTHER FINANCING SOURCES (USES):			
Loan Proceeds	3,800,000	-	-
Sale of capital assets	28,861	13,962	-
Transfers in	3,229,424	7,291,262	250,000
Transfers out	(4,925,135)	(136,059)	(5,845,432)
Total other financing sources (uses)	<u>2,133,150</u>	<u>7,169,165</u>	<u>(5,595,432)</u>
Net change in fund balances	<u>6,213,164</u>	<u>4,095,377</u>	<u>(10,365,949)</u>
Fund balances, beginning of year	<u>23,112,032</u>	<u>4,875,493</u>	<u>22,728,643</u>
Fund balances, end of year	<u>\$ 29,325,196</u>	<u>\$ 8,970,870</u>	<u>\$ 12,362,694</u>

The notes to the financial statements are an integral part of this statement

BBB Fund	Other Governmental Funds	Total Governmental Funds
\$ 4,331,014	\$ 4,856,360	\$ 35,529,373
-	2,700,708	17,545,686
5,040	392,030	9,564,110
40,410	275,212	1,834,067
-	218,500	218,500
-	-	2,063,718
-	-	1,250,494
6,293	-	1,220,007
154,480	295,764	1,589,293
-	17,765	22,229
14,928	37,316	277,972
<u>4,552,165</u>	<u>8,793,655</u>	<u>71,115,449</u>
-	-	6,158,308
-	-	19,140,415
-	-	1,005,745
1,568,306	1,386,130	6,424,057
1,114,779	3,261,263	8,341,105
68,684	-	8,951,097
-	1,780,000	4,880,000
-	281,245	2,148,734
1,618,205	1,490,770	17,053,841
<u>4,369,974</u>	<u>8,199,408</u>	<u>74,103,302</u>
<u>182,191</u>	<u>594,247</u>	<u>(2,987,853)</u>
-	-	3,800,000
-	2,071,575	2,114,398
1,210,000	3,332,245	15,312,931
<u>(1,671,905)</u>	<u>(4,003,521)</u>	<u>(16,582,052)</u>
<u>(461,905)</u>	<u>1,400,299</u>	<u>4,645,277</u>
<u>(279,714)</u>	<u>1,994,546</u>	<u>1,657,424</u>
<u>6,717,758</u>	<u>4,832,978</u>	<u>62,266,904</u>
<u>\$ 6,438,044</u>	<u>\$ 6,827,524</u>	<u>\$ 63,924,328</u>

CITY OF FLAGSTAFF
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Net change in fund balances – total governmental funds	\$	1,657,424
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Amounts reported for governmental activities in the statements of activities are different because:

Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Expenditures for capital assets	17,053,841	
Less current year depreciation	<u>(3,617,398)</u>	13,436,443

Some items reported in the governmental funds are sources and uses of current financial resources and therefore are not reported as revenues or expenses in the statement of activities. These items include:

Lease proceeds	(3,800,000)	
Donated capital	5,051,508	
Transfer of capital assets to business-type activity	(5,735,244)	
Compensated absences	(164,120)	
Principal payments on debt	4,880,000	
Bond premium	<u>(53,635)</u>	178,509

Bond issuance costs are recognized as debt service expenditures in the governmental funds, however these costs are capitalized on the statement and activities and amortized in the statement of activities.	106,179
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The sale of capital assets in the governmental funds reflect proceeds. However, in the statement of activities the sale of capital assets reflect the net gain (loss).	(1,732,011)
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Certain revenues in the governmental funds that provide current financial resources are not included in the statement of activities because they were recognized in a prior period. However, other revenues that are deferred in the governmental funds because they do not provide current financial resources due to unavailability are recognized in the statement of activities.

Special assessments	(218,500)	
Property tax	(12,907)	
Fines and forfeitures	<u>(41,534)</u>	(272,941)

Internal service funds are used by management to charge the costs of certain activities, such as the City's self-insurance program to individual funds. The following activities of the internal service fund is reported with governmental activities.

Operating loss	(169,780)	
Investment income	<u>114,568</u>	(55,212)

Change in net assets of governmental activities – statement of activities	\$	<u><u>13,318,391</u></u>
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The notes to the financial statements are an integral part of this statement

CITY OF FLAGSTAFF, ARIZONA
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2005

	<u>Budget</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts Budgetary Basis</u>	
REVENUES:				
Taxes	\$ 18,292,134	\$ 18,292,134	\$ 18,710,442	\$ 418,308
Intergovernmental	11,450,883	11,450,883	12,844,978	1,394,095
Grants and entitlements	712,471	712,471	1,102,669	390,198
Charges for services	1,787,340	1,787,340	1,518,445	(268,895)
Licenses and permits	1,986,208	1,986,208	2,063,718	77,510
Fines and forfeitures	1,181,585	1,181,585	1,250,494	68,909
Rents	808,439	808,439	1,213,714	405,275
Investment earnings	499,315	499,315	624,949	125,634
Contributions	-	-	2,400	2,400
Miscellaneous	356,411	356,411	161,799	(194,612)
Total revenues	<u>37,074,786</u>	<u>37,074,786</u>	<u>39,493,608</u>	<u>2,418,822</u>
EXPENDITURES:				
General governmental	7,482,938	7,637,938	6,272,877	1,365,061
Public safety	19,490,150	19,604,534	19,143,713	460,821
Public works	1,038,046	1,098,046	1,005,745	92,301
Economic and physical development	3,934,325	3,969,325	3,469,621	499,704
Culture and recreation	4,312,916	4,312,916	3,841,912	471,004
Debt service:				
Principal retirement	275,000	275,000	275,000	-
Interest and other charges	189,839	189,839	254,059	(64,220)
Capital outlay	3,414,366	3,549,982	1,100,761	2,449,221
Contingency	650,000	150,000	5,821	144,179
Total expenditures	<u>40,787,580</u>	<u>40,787,580</u>	<u>35,369,509</u>	<u>5,418,071</u>
Excess (deficiency) of revenues over expenditures	<u>(3,712,794)</u>	<u>(3,712,794)</u>	<u>4,124,099</u>	<u>7,836,893</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	24,710	24,710	28,861	4,151
Transfers in	3,634,442	3,634,442	3,229,424	(405,018)
Transfers out	<u>(14,469,158)</u>	<u>(14,469,158)</u>	<u>(4,925,135)</u>	<u>9,544,023</u>
Total other financing sources (uses)	<u>(10,810,006)</u>	<u>(10,810,006)</u>	<u>(1,666,850)</u>	<u>9,143,156</u>
Net change in fund balances	<u>(14,522,800)</u>	<u>(14,522,800)</u>	<u>2,457,249</u>	<u>16,980,049</u>
Budgetary fund balances, beginning of year	<u>20,074,118</u>	<u>20,074,118</u>	<u>20,074,118</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 5,551,318</u>	<u>\$ 5,551,318</u>	<u>\$ 22,531,367</u>	<u>\$ 16,980,049</u>
Adjustment from budetary basis to GAAP basis net change in fund balances			\$ 2,457,249	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			3,772,257	
The City budgets for certain other expenditures on the cash basis, rather than on the modified accrual basis			(16,342)	
Adjusted net change in fund balance – GAAP basis			<u>\$ 6,213,164</u>	

The notes to the financial statements are an integral part of this statement

CITY OF FLAGSTAFF, ARIZONA
Highway User Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2005

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
REVENUES:				
Grants and entitlements	\$ 7,830,842	\$ 7,830,842	\$ 8,064,371	\$ 233,529
Intergovernmental	2,000,000	2,000,000	2,000,000	-
Investment earnings	33,000	33,000	165,963	132,963
Contributions	1,720,000	1,720,000	2,064	(1,717,936)
Miscellaneous	41,261	41,261	63,929	22,668
Total revenues	<u>11,625,103</u>	<u>11,625,103</u>	<u>10,296,327</u>	<u>(1,328,776)</u>
EXPENDITURES:				
Current:				
Highways and streets	4,535,346	4,535,346	4,328,577	206,769
Debt service:				
Principal retirement	1,825,000	1,825,000	1,825,000	-
Interest and other charges	573,096	573,096	573,830	(734)
Capital outlay	20,717,044	20,717,044	6,644,014	14,073,030
Contingency	100,000	100,000	3,478	96,522
Total expenditures	<u>27,750,486</u>	<u>27,750,486</u>	<u>13,374,899</u>	<u>14,375,587</u>
Excess (deficiency) or revenues over expenditures	<u>(16,125,383)</u>	<u>(16,125,383)</u>	<u>(3,078,572)</u>	<u>13,046,811</u>
OTHER FINANCING SOURCES (USES):				
Bonds issued	402,500	402,500	-	(402,500)
Sale of capital assets	-	-	13,962	13,962
Transfers in	12,701,785	12,701,785	7,291,262	(5,410,523)
Transfers out	(145,000)	(145,000)	(136,059)	8,941
Total other financing sources (uses)	<u>12,959,285</u>	<u>12,959,285</u>	<u>7,169,165</u>	<u>(5,790,120)</u>
Net change in fund balances	<u>(3,166,098)</u>	<u>(3,166,098)</u>	<u>4,090,593</u>	<u>7,256,691</u>
Budgetary fund balances, beginning of year	<u>4,813,394</u>	<u>4,813,394</u>	<u>4,813,394</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 1,647,296</u>	<u>\$ 1,647,296</u>	<u>\$ 8,903,987</u>	<u>\$ 7,256,691</u>
Adjustment from budgetary basis to GAAP basis net change in fund balances			\$ 4,090,593	
The City budgets for certain other expenditures on the cash basis, rather than on the modified accrual basis			4,784	
Adjusted net change in fund balance – GAAP basis			<u>\$ 4,095,377</u>	

The notes to the financial statements are an integral part of this statement

CITY OF FLAGSTAFF, ARIZONA
Transportation Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2005

	<u>Budget</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts Budgetary Basis</u>	
REVENUES:				
Taxes	\$ 7,227,146	\$ 7,227,146	\$ 7,631,557	\$ 404,411
Investment earnings	575,000	575,000	375,880	(199,120)
Total revenues	<u>7,802,146</u>	<u>7,802,146</u>	<u>8,007,437</u>	<u>205,291</u>
EXPENDITURES:				
Current:				
Highways and streets	2,267,779	2,267,779	1,864,005	403,774
Debt service:				
Principal retirement	1,000,000	1,000,000	1,000,000	-
Interest and other charges	1,041,600	1,041,600	1,039,600	2,000
Capital outlay	<u>15,387,200</u>	<u>15,387,200</u>	<u>8,874,349</u>	<u>6,512,851</u>
Total expenditures	<u>19,696,579</u>	<u>19,696,579</u>	<u>12,777,954</u>	<u>6,918,625</u>
Excess (deficiency) or revenues over expenditures	<u>(11,894,433)</u>	<u>(11,894,433)</u>	<u>(4,770,517)</u>	<u>7,123,916</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	2,200,000	2,200,000	-	(2,200,000)
Transfers in	250,000	250,000	250,000	-
Transfers out	<u>(9,756,689)</u>	<u>(9,756,689)</u>	<u>(5,845,432)</u>	<u>3,911,257</u>
Total other financing sources (uses)	<u>(7,306,689)</u>	<u>(7,306,689)</u>	<u>(5,595,432)</u>	<u>1,711,257</u>
Net change in fund balances	<u>(19,201,122)</u>	<u>(19,201,122)</u>	<u>(10,365,949)</u>	<u>8,835,173</u>
Budgetary fund balances, beginning of year	<u>23,006,476</u>	<u>23,006,476</u>	<u>23,006,476</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 3,805,354</u>	<u>\$ 3,805,354</u>	<u>\$ 12,640,527</u>	<u>\$ 8,835,173</u>

The notes to the financial statements are an integral part of this statement

CITY OF FLAGSTAFF, ARIZONA
BBB Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2005

	<u>Budget</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts Budgetary Basis</u>	
REVENUES:				
Taxes	\$ 3,993,176	\$ 3,993,176	\$ 4,331,014	\$ 337,838
Grants and entitlements	2,055,700	2,055,700	5,040	(2,050,660)
Charges for services	20,000	20,000	40,410	20,410
Rents	14,898	14,898	6,293	(8,605)
Investment earnings	133,252	133,252	154,480	21,228
Miscellaneous	28,000	28,000	14,928	(13,072)
Total revenues	<u>6,245,026</u>	<u>6,245,026</u>	<u>4,552,165</u>	<u>(1,692,861)</u>
EXPENDITURES:				
Current:				
Economic and physical development	1,850,128	1,870,128	1,550,915	319,213
Culture and recreation	548,860	548,860	366,529	182,331
Capital outlay	8,587,715	8,587,715	2,450,517	6,137,198
Contingency	95,000	75,000	–	75,000
Total expenditures	<u>11,081,703</u>	<u>11,081,703</u>	<u>4,367,961</u>	<u>6,713,742</u>
Excess (deficiency) or revenues over expenditures	<u>(4,836,677)</u>	<u>(4,836,677)</u>	<u>184,204</u>	<u>5,020,881</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	1,472,924	1,472,924	1,210,000	(262,924)
Transfers out	<u>(2,081,778)</u>	<u>(2,081,778)</u>	<u>(1,671,905)</u>	<u>409,873</u>
Total other financing sources (uses)	<u>(608,854)</u>	<u>(608,854)</u>	<u>(461,905)</u>	<u>146,949</u>
Net change in fund balances	<u>(5,445,531)</u>	<u>(5,445,531)</u>	<u>(277,701)</u>	<u>5,167,830</u>
Budgetary fund balances, beginning of year	<u>6,075,743</u>	<u>6,075,743</u>	<u>6,075,743</u>	<u>–</u>
Budgetary fund balances, end of year	<u>\$ 630,212</u>	<u>\$ 630,212</u>	<u>\$ 5,798,042</u>	<u>\$ 5,167,830</u>
Adjustment from budetary basis to GAAP basis net change in fund balances			\$ (277,701)	
The City budgets for certain other expenditures on the cash basis, rather than on the modified accrual basis			<u>(2,013)</u>	
Adjusted net change in fund balance – GAAP basis			<u>\$ (279,714)</u>	

The notes to the financial statements are an integral part of this statement



CITY OF FLAGSTAFF, ARIZONA
Statement of Net Assets
Proprietary Funds
June 30, 2005

	Business-type Activities – Enterprise Funds	
	Water and Wastewater Fund	Environmental Services Fund
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 20,216,086	\$ 5,195,947
Cash with fiscal agents	2,966,893	–
Restricted cash and cash equivalents	1,604,695	5,504,181
Investments	60,000	628,651
Accounts receivable, net	2,058,145	788,990
Interest receivable	135,640	50,789
Interfund receivables	–	–
Intergovernmental receivables	37,258	123,339
Inventory	274,515	–
Deferred bond issuance costs, net	497,066	–
Total current assets	<u>27,850,298</u>	<u>12,291,897</u>
Noncurrent assets:		
Capital assets, non-depreciable	3,829,755	1,978,361
Capital assets, depreciable, net	180,751,590	5,027,377
Total non-current assets	<u>184,581,345</u>	<u>7,005,738</u>
Total assets	<u>212,431,643</u>	<u>19,297,635</u>
LIABILITIES		
Current liabilities:		
Accounts payable	585,581	121,018
Accrued payroll and compensated absences	229,531	140,556
Deferred revenue	87,489	813
Unamortized bond premium	133,476	–
Interfund payable	–	–
Lease and notes payable	–	–
Liabilities payable from restricted assets	3,295,279	5,527,369
Deposits payable	549,838	17,340
Total current liabilities	<u>4,881,194</u>	<u>5,807,096</u>
Noncurrent liabilities:		
Compensated absences	211,581	62,316
Landfill closure and postclosure care costs	–	2,081,006
Bonds and notes payable	26,257,712	–
Total noncurrent liabilities	<u>26,469,293</u>	<u>2,143,322</u>
Total liabilities	<u>31,350,487</u>	<u>7,950,418</u>
NET ASSETS		
Invested in capital assets, net of related debt	158,687,223	7,005,738
Restricted:		
Capital projects	1,593,915	–
Debt service	740,862	–
Unrestricted	20,059,156	4,341,479
Total net assets	<u>\$ 181,081,156</u>	<u>\$ 11,347,217</u>

Some amounts reported for *business-type activities* in the statement of net assets are different because certain internal service fund assets and liabilities are included with business-type activities.

The notes to the financial statements are an integral part of this statement

Business-type Activities – Enterprise Funds			Governmental Activities
Airport Fund	Stormwater Fund	Total	Internal Service Fund
\$ 376,867	\$ 640,141	\$ 26,429,041	\$ 4,625,421
272,728	–	3,239,621	–
861,965	–	7,970,841	–
–	–	688,651	–
62,720	51,401	2,961,256	67,923
6,448	5,860	198,737	26,652
–	–	–	94,897
333,718	–	494,315	–
–	–	274,515	–
–	–	497,066	–
<u>1,914,446</u>	<u>697,402</u>	<u>42,754,043</u>	<u>4,814,893</u>
5,509,852	6,076,227	17,394,195	–
<u>26,916,560</u>	<u>675,976</u>	<u>213,371,503</u>	<u>–</u>
<u>32,426,412</u>	<u>6,752,203</u>	<u>230,765,698</u>	<u>–</u>
<u>34,340,858</u>	<u>7,449,605</u>	<u>273,519,741</u>	<u>4,814,893</u>
232,370	60,617	999,586	270,637
28,119	11,183	409,389	–
–	–	88,302	–
9,715	–	143,191	–
94,897	–	94,897	–
109,866	–	109,866	–
272,728	–	9,095,376	–
29,321	–	596,499	–
<u>777,016</u>	<u>71,800</u>	<u>11,537,106</u>	<u>270,637</u>
10,284	2,899	287,080	–
–	–	2,081,006	–
<u>4,310,644</u>	<u>–</u>	<u>30,568,356</u>	<u>–</u>
<u>4,320,928</u>	<u>2,899</u>	<u>32,936,442</u>	<u>–</u>
<u>5,097,944</u>	<u>74,699</u>	<u>44,473,548</u>	<u>270,637</u>
28,106,053	6,752,203	200,551,217	–
865,744	–	2,459,659	–
–	–	740,862	–
271,117	622,703	25,294,455	4,544,256
<u>\$ 29,242,914</u>	<u>\$ 7,374,906</u>	<u>\$ 229,046,193</u>	<u>\$ 4,544,256</u>
		(345,607)	
Net assets of business-type activities		<u>\$ 228,700,586</u>	

CITY OF FLAGSTAFF, ARIZONA
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2005

	Business-type Activities – Enterprise Funds	
	Water and Wastewater Fund	Environmental Services Fund
OPERATING REVENUES:		
Charges for services	\$ 16,170,822	\$ 8,823,991
Miscellaneous	52,826	546,570
Total operating revenues	<u>16,223,648</u>	<u>9,370,561</u>
OPERATING EXPENSES:		
Personal services	4,166,018	2,836,619
Contractual services, materials and supplies	6,527,883	5,003,188
Insurance claims and expenses	–	–
Depreciation and amortization	5,383,134	682,029
Total operating expenses	<u>16,077,035</u>	<u>8,521,836</u>
Operating income (loss)	<u>146,613</u>	<u>848,725</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest and investment income	628,308	249,385
Grants and entitlements	43,053	123,339
Gain on sale of capital asset	385	1,819
Interest expense	(1,169,269)	–
Total non-operating revenues (expenses)	<u>(497,523)</u>	<u>374,543</u>
Income (loss) before capital contributions and transfers	<u>(350,910)</u>	<u>1,223,268</u>
Capital contributions	5,031,858	80,474
Transfers in	2,398,830	15,000
Transfers out	(2,398,830)	(4,678)
Change in net assets	<u>4,680,948</u>	<u>1,314,064</u>
Total net assets, beginning of year	<u>176,400,208</u>	<u>10,033,153</u>
Total net assets, end of year	<u><u>\$ 181,081,156</u></u>	<u><u>\$ 11,347,217</u></u>

The notes to the financial statements are an integral part of this statement

Business-type Activities – Enterprise Funds			Governmental Activities
Airport Fund	Stormwater Fund	Total	Internal Service Fund
\$ 1,023,522	\$ 693,783	\$ 26,712,118	\$ 6,080,036
153,344	378	753,118	9,151
1,176,866	694,161	27,465,236	6,089,187
557,680	355,990	7,916,307	-
1,173,999	115,549	12,820,619	-
-	-	-	6,349,387
1,851,428	6,652	7,923,243	-
3,583,107	478,191	28,660,169	6,349,387
(2,406,241)	215,970	(1,194,933)	(260,200)
21,205	37,075	935,973	114,568
3,253,062	1,394	3,420,848	-
511,534	-	513,738	-
(155,243)	-	(1,324,512)	-
3,630,558	38,469	3,546,047	114,568
1,224,317	254,439	2,351,114	(145,632)
-	5,941,215	11,053,547	-
634,831	685,968	3,734,629	-
-	(62,000)	(2,465,508)	-
1,859,148	6,819,622	14,673,782	(145,632)
27,383,766	555,284		4,689,888
\$ 29,242,914	\$ 7,374,906		\$ 4,544,256

Some amounts reported for *business-type activities* on the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities.

	(90,420)
Change in net assets of business-type activities	\$ 14,583,362

City of Flagstaff, Arizona
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2005

	Business-type Activities – Enterprise Funds	
	Water and Wastewater Fund	Environmental Services Fund
Cash flows from operating activities:		
Receipts from customers	\$ 16,106,049	\$ 8,774,047
Receipts from quasi-external transactions with other funds	269,372	62,274
Other receipts	52,826	415,921
Payments to suppliers	(6,564,710)	(4,493,631)
Payments for quasi-external transactions with other funds	(35,005)	-
Payments to employees	(4,127,681)	(2,783,861)
Net cash provided (used) by operating activities	<u>5,700,851</u>	<u>1,974,750</u>
Cash flows from noncapital financing activities:		
Transfer from other funds	2,398,830	15,000
Transfer to other funds	(2,398,830)	(4,678)
Interfund loans paid	-	-
Interfund loans received	400,000	-
Net cash provided (used) by noncapital financing activities	<u>400,000</u>	<u>10,322</u>
Cash flows from capital and related financing activities:		
Receipts from grantors	-	-
Capital Contributions	1,357,383	80,474
Acquisition and construction of capital assets	(6,934,811)	(1,204,842)
Principal payments on capital debt	(2,589,406)	-
Interest paid on capital debt	(1,213,718)	-
Decrease in deferred bond issuance costs	62,134	-
Proceeds from capital debt	-	-
Proceeds from insurance reimbursement	-	56,995
Proceeds from sales of capital assets	385	1,819
Net cash provided (used) by capital and related financing activities	<u>(9,318,033)</u>	<u>(1,065,554)</u>
Cash flows from investing activities:		
Interest received on investments	618,708	235,185
Net cash provided (used) by investing activities	<u>618,708</u>	<u>235,185</u>
Net increase (decrease) in cash and cash equivalents	<u>(2,598,474)</u>	<u>1,154,703</u>
Cash and cash equivalents at beginning of year	<u>27,446,148</u>	<u>10,174,076</u>
Cash and cash equivalents at end of year	<u>\$ 24,847,674</u>	<u>\$ 11,328,779</u>
Classified as:		
Cash, cash equivalents, and investments	\$ 20,216,086	\$ 5,195,947
Cash and investments	60,000	628,651
Restricted cash with fiscal agents	2,966,893	-
Restricted cash and cash equivalents	1,604,695	5,504,181
Totals	<u>\$ 24,847,674</u>	<u>\$ 11,328,779</u>

The notes to the financial statements are an integral part of this statement
(continued)

Business-type Activities – Enterprise Funds			Governmental Activities
Airport Fund	Stormwater Fund	Total	Internal Service Fund
\$ 1,074,657	\$ 645,180	\$ 26,599,933	\$ –
–	18,031	349,677	6,079,457
153,344	378	622,469	9,151
(1,243,288)	(134,368)	(12,435,997)	(6,640,997)
(16,375)	(115)	(51,495)	–
(553,383)	(352,142)	(7,817,067)	–
<u>(585,045)</u>	<u>176,964</u>	<u>7,267,520</u>	<u>(552,389)</u>
634,831	(62,000)	2,986,661	–
–	685,968	(1,717,540)	–
(400,000)	–	(400,000)	–
–	–	400,000	–
<u>234,831</u>	<u>623,968</u>	<u>1,269,121</u>	<u>–</u>
3,490,313	10,584	3,500,897	–
–	–	1,437,857	–
(5,170,558)	(421,794)	(13,732,005)	–
(291,113)	–	(2,880,519)	–
(158,480)	–	(1,372,198)	–
–	–	62,134	–
2,782,598	–	2,782,598	–
–	–	56,995	–
<u>511,534</u>	<u>–</u>	<u>513,738</u>	<u>–</u>
<u>1,164,294</u>	<u>(411,210)</u>	<u>(9,630,503)</u>	<u>–</u>
17,100	31,526	902,519	112,509
<u>17,100</u>	<u>31,526</u>	<u>902,519</u>	<u>112,509</u>
831,180	421,248	(191,343)	(439,880)
680,380	218,893	38,519,497	5,065,301
<u>\$ 1,511,560</u>	<u>\$ 640,141</u>	<u>\$ 38,328,154</u>	<u>\$ 4,625,421</u>
\$ 376,867	\$ 640,141	\$ 26,429,041	\$ 4,625,421
–	–	688,651	–
272,728	–	3,239,621	–
861,965	–	7,970,841	–
<u>\$ 1,511,560</u>	<u>\$ 640,141</u>	<u>\$ 38,328,154</u>	<u>\$ 4,625,421</u>

(continued)

City of Flagstaff, Arizona
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2005

	Business-type Activities – Enterprise Funds	
	Water and Wastewater Fund	Environmental Services Fund
Reconciliation of operating income (loss) to net cash provided (used) by operating activities		
Operating income (loss)	\$ 146,613	\$ 848,725
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	5,383,134	682,029
Landfill closure and postclosure costs	-	527,821
(Increase) decrease in assets:		
Accounts receivable	192,906	11,517
Intergovernmental receivable	-	-
Inventories	103,196	-
Increase (decrease) in liabilities:		
Accounts payable	(175,028)	(18,264)
Accrued payroll and compensated absences	38,337	52,758
Deposits payable	21,963	-
Deferred revenue	(10,270)	(129,836)
Total Adjustments	<u>5,554,238</u>	<u>1,126,025</u>
Net cash provided (used) by operating activities	<u>\$ 5,700,851</u>	<u>\$ 1,974,750</u>
Noncash investing, capital and financing activities:		
Capital assets acquired through contributions from developers	\$ 3,674,475	\$ -
Capital assets acquired through contributions from general fund	-	-
Total noncash investing, capital and financing activities	<u>\$ 3,674,475</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement

			Governmental Activities
Airport Fund	Stormwater Fund	Total	Internal Service Fund
\$ (2,406,241)	\$ 215,970	\$ (1,194,933)	\$ (260,200)
1,851,428	6,652	7,923,243	-
-	-	527,821	-
44,476	(30,572)	218,327	(579)
-	-	-	-
-	-	103,196	-
(85,664)	(18,934)	(297,890)	(291,610)
4,297	3,848	99,240	-
6,659	-	28,622	-
-	-	(140,106)	-
<u>1,821,196</u>	<u>(39,006)</u>	<u>8,462,453</u>	<u>(292,189)</u>
<u>\$ (585,045)</u>	<u>\$ 176,964</u>	<u>\$ 7,267,520</u>	<u>\$ (552,389)</u>
\$ -	\$ 205,971	\$ 3,880,446	\$ -
-	5,738,494	5,738,494	-
<u>\$ -</u>	<u>\$ 5,944,465</u>	<u>\$ 9,618,940</u>	<u>\$ -</u>

CITY OF FLAGSTAFF, ARIZONA
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

	Firemen's Pension Fund
ASSETS	
Cash and cash equivalents	\$ 216,442
Interest receivable	1,164
Total assets	<u>217,606</u>
LIABILITIES	
Other liabilities	-
Total liabilities	<u>-</u>
NET ASSETS	
Held in trust for pension benefits and other purposes	<u>\$ 217,606</u>

The notes to the financial statements are an integral part of this statement

CITY OF FLAGSTAFF, ARIZONA
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2005

	<u>Firemen's Pension Fund</u>
ADDITIONS:	
Investment earnings	<u>\$ 5,592</u>
Total additions	<u>5,592</u>
 DEDUCTIONS:	
Retirement payments	<u>7,200</u>
Total deductions	<u>7,200</u>
 Change in net assets	<u>(1,608)</u>
 Net assets – beginning of year	<u>219,214</u>
Net assets – end of year	<u><u>\$ 217,606</u></u>

The notes to the financial statements are an integral part of this statement



CITY OF FLAGSTAFF, ARIZONA

Notes to the Financial Statement

June 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. FINANCIAL REPORTING ENTITY

The City of Flagstaff (the City) was incorporated as a town in 1894 and as a city in 1928. The current City Charter was approved June 29, 1998. The Charter provides for the Council-Mayor form of government and the authority to provide municipal services, as limited by the State Constitution.

The accounting policies of the City of Flagstaff conform to United States of America generally accepted accounting principles (GAAP) as applicable to Governmental Units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

During the year ended June 30, 2005, the city implemented the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. GASB Statement No. 40 establishes and modifies the risk disclosures about the City of Flagstaff's deposits and investments. The implementation of GASB Statement No. 40 requires only additional disclosures, and had no effect on reported amounts for deposits, investments, net assets, or changes in net assets.

The City of Flagstaff is a municipal corporation governed by an elected Mayor and six-member council. The accompanying financial statements include the City and all of its component, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Discretely presented component units are reported in a separate column in the Government Wide Statement of Net Assets and Activities to emphasize they are legally separate from the government. The City of Flagstaff has no discretely presented component units.

Blended Component Unit: The Municipal Facilities Corporation (MFC) is a non-profit corporation created by the City for the purpose of constructing, acquiring and equipping municipal facilities. For Financial reporting purposes, transactions of the MFC are included as if it were part of the City's operations. In fiscal year 2004 the MFC issued \$25 million in bonds for construction of the Fourth Street Overpass. The voters approved this debt financing in the May 2000 General Election. These bonds will be repaid with the transportation sales tax that was also approved in the May 2000 Election.

Related Organizations: The City of Flagstaff officials are also responsible for appointing board members of other organizations. However, as the City's control is limited to making the appointments and there is not a significant operational nor a significant financial relationship between these organizations and the City, they are not included as part of these financial statements.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (statement of net assets and statement of activities) report on the City and its component units as a whole, excluding fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All activities, both governmental and business type, are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

Generally, the effect of interfund activity has been removed from the government-wide financial statement. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements.

Interdepartmental services performed by one department for another are credited to the performing department and charged to the receiving department to reflect the accurate costs of programs. These indirect costs have been included as part of the program expenses reported for the various functional activities. The rates used are intended to reflect full costs in accordance with generally accepted cost accounting principles.

The government-wide statement of net assets reports all financial and capital resources of the government (excluding fiduciary funds). It is displayed in a format of assets less liabilities equals net assets, with the assets and liabilities shown in order of their relative liquidity. Net assets are required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or law or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. Generally, the City would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Reservations or designations of net assets imposed by the reporting government, whether by administrative policy or legislative actions of the reporting government, are not shown on the government-wide financial statements.

The government-wide statement of activities demonstrates the degree to which the direct expenses of the various functions and segments of the City are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Interest on general long-term debt and depreciation expense on assets shared by multiple functions are not allocated to the various functions. Program revenues include: 1) charges to customers or users who purchase, use or directly benefit from goods, services or privileges provided by a particular function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, investment income and other revenues not identifiable with particular functions or segments are included as general revenues. The general revenues support the net costs of the functions and segments not covered by program revenues.

Also part of the basic financial statements are fund financial statements for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although the new model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or

expenditures/expenses of fund category and of the governmental and enterprise funds combined), it also gives governments the option of displaying other funds as major funds. The City has opted to add the Bed, Board, and Booze (BBB) Fund as major fund because of community focus. Other non-major funds are combined in a single column on the fund financial statements and are detailed in combining statements included as supplementary information after the basic financial statements.

GASB Statement 34 requires reporting of infrastructure such as roads, bridges, canal systems, ditches, water systems, sewer systems, and recreational assets on a prospective basis effective July 1, 2002 and retrospectively for all major infrastructure assets acquired or constructed since 1980. This reporting is required to be in place by fiscal year 2007. Accordingly, infrastructure assets acquired or constructed beginning in 1980 through June 30, 2002 are not included in the government-wide financial statements.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recorded as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. This is the traditional basis of accounting for governmental funds. This presentation is deemed most appropriate to 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the City's actual revenues, and expenditures conform to the annual budget. Since the governmental fund financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

The proprietary (enterprise) fund and fiduciary fund financial statements are prepared on the same basis (economic resources measurement focus and accrual basis of accounting) as the government-wide financial statements. Therefore, most lines for the total enterprise funds on the proprietary fund financial statements will directly reconcile to the business-type activities column on the government-wide financial statements. Because the enterprise funds are combined into a single business-type activities column on the government-wide financial statements, certain interfund activities between these funds may be eliminated in the consolidation for the government-wide financial statements, but are included in the fund columns in the proprietary fund financial statements.

The City uses funds to report its financial position and the results of its operations. Fund accounting segregates funds according to their intended purpose and is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts, which includes assets, liabilities, fund equity, revenues and expenditures/expenses.

The City uses the following fund categories:

GOVERNMENTAL FUND TYPES

Governmental funds are those through which most of the governmental functions of the City are financed. The measurement focus is based upon determination of changes in financial position rather than upon net income determination.

General Fund is the primary operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General fund will always be considered a major fund in the basic financial statements.

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are legally restricted to expenditures for specified purposes. There are three special revenue funds that are presented as major funds in the basic financial statements. They are the:

- *Highway User Revenue Fund*, which receives and expends the City's allocation of the Highway User Revenue money. Monies allocated to this fund must be used for Street construction, reconstruction and maintenance.
- *Transportation Tax Fund* that accounts for the receipt and expenditures of the Transportation Tax money. These monies are restricted to financing improvements in the Areas of the 4th Street overpass project, Safe to School/Pedestrian and Bike projects, Traffic Flow and Safety improvements, and Transit Service operations and enhancements.
- *Bed, Board and Booze Tax Fund* that accounts for the Bed, Board and Booze tax revenues and expenditures. These monies are restricted for use in the areas of Beautification, Economic Development, Tourism, Arts & Science, and Recreation.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term obligation principal and interest.

Permanent Funds are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs.

- The *Perpetual Care Fund* accounts for the perpetual care of the City's cemetery.

PROPRIETARY FUND TYPES

Proprietary Funds are used to account for the City's ongoing organizations and activities, which are similar to those found in the private sector and where cost recovery and the determination of net income is useful or necessary for sound fiscal management. The measurement focus is based upon determination of net income, changes in net assets, financial position, and cash flows.

Enterprise Funds are used to account for operations that provide services to the general public for a fee. Under GASB Statement No. 34, enterprise funds are also required for any activity whose principal revenue sources meet any of the following criteria: 1) any activity that has issued debt backed solely by the fees and charges of the activity, 2) if the cost of providing services for an activity, including capital costs such as depreciation or debt service, must legally be recovered through fees and charges, or 3) it is the policy of the City to establish activity fees or charges to recover the cost of providing services, including capital costs. The City has four enterprise funds all of which are presented as major funds in the basic financial statements. These include the City's water and wastewater system, environmental services, airport, and stormwater.

Private Sector Standards

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

FIDUCIARY FUND TYPES

Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and other funds. The reporting focus is upon net assets and changes in net assets and employs accounting principles similar to proprietary funds. Fiduciary funds are not included in the government-wide financial statements since they are not assets of the City available to support City programs.

Firemen's Pension Fund is a pension trust fund that is used to account for the activity of the City's single-employer retirement system. This fund is accounted for on the same basis as a proprietary fund, using the same measurement focus and basis of accounting.

Non-Current Governmental Assets/Liabilities

GASB Statement No. 34 eliminates the presentation of account groups (formerly the general fixed asset account group and the general long-term debt account group). The governmental long-term assets and liabilities continue to be maintained in the account groups for tracking purposes, but are presented with the governmental activities in the government-wide statement of net assets.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds are accounted for using a current financial resources measurement focus whereby only current assets and current liabilities are generally included on the balance sheet. Operating statements present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Enterprise funds and pension trust funds are accounted for on a flow of economic resources measurement focus whereby all assets and liabilities associated with the operation of these funds are included on the balance sheet. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The modified accrual basis of accounting is used by governmental funds. Revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers revenues to be available if they are collected within 60 days after year-end.

Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

Revenues susceptible to accrual include property tax, privilege license tax, highway user tax, state shared sales tax, vehicle license tax, and interest earned on investments. Licenses and permits, charges for services, fines and forfeitures, parks and recreation charges and miscellaneous revenues are recorded when received in cash since they are generally not measurable until actually received.

The accrual basis of accounting is followed for all enterprise funds and the pension trust fund, whereby revenues are recognized in the accounting period in which they are earned and become measurable, and expenses are recognized when incurred.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating items.

D. ASSETS, LIABILITIES, AND NET ASSETS

Pooled Cash and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorized the government to invest in the State's Local Government Investment Pool, in obligations of the U.S. Treasury, commercial paper and repurchase agreements. Investment Income from pooled cash and investments is allocated monthly based on the percentage of a fund's average daily equity in pooled cash and investments to the total average daily-pooled equity in pooled cash and investments. Investments are stated at fair value.

For purposes of the statement of cash flows, the City considers cash and cash equivalents, including restricted cash and cash equivalents, to be currency on hand, demand deposits with banks, amounts included in pooled cash and investment accounts and liquid investments with a maturity of three months or less when purchased. Cash and cash equivalents are included in both unrestricted as well as restricted assets.

Receivables and Payables

Accounts receivable and taxes receivable, are shown net of an allowance for uncollectible accounts. The City's property tax is levied each year on or before the third Monday in August based on the previous January 1, full cash value as determined by the Coconino County Assessor. Levies are due and payable in two installments on September 1 and March 1. First half installments become delinquent on November 1; second half installments become delinquent on May 1. Interest at the rate of 12% per annum accrues following delinquent dates. Coconino County bills and collects all property taxes, at no charge to the taxing entities. A lien against property assessed attaches on the first day of January preceding assessment and levy thereon.

Under Arizona tax laws, there are two property tax levies, primary and secondary. Primary property taxes are not restricted as to use and are used to finance the general operations of the City. Secondary property taxes are restricted for general obligation bonded debt service. The secondary property tax levy is recorded as revenue in a debt service fund and transferred to the Water and Wastewater Enterprise Fund, the BBB Fund, the Airport Enterprise Fund and the General Obligation Bond Fund. General Obligation bonds are serviced by each of these funds. For fiscal year 2004-2005, primary and secondary property tax collections amounted to \$3,618,849 and \$4,856,360 respectively.

Inventory

Inventory is valued at cost, which approximates market, using the weighted average cost method. Inventory consists of expendable supplies held for consumption and is charged to expenditure accounts as consumed.

Restricted Assets

Certain debt proceeds of the City’s bonds, as well as certain resources set aside for their repayment, are classified as restricted on the balance sheet, or statement of net assets, because they are maintained in trust accounts and their use is limited by applicable debt covenants.

Grant Revenue

The City, a recipient of grant revenues, recognizes revenues (net of estimated uncollectible amounts, if any), when all applicable eligibility requirements, including time requirements, are met. Resources transmitted to the City before the eligibility requirements are met are reported as deferred revenues. Some grants and contributions consist of capital assets or resources that are restricted for capital purposes – to purchase, construct, or renovate capital assets associated with a specific program. These are reported separately from grants and contributions that may be used either for operating expenses or for capital expenditures of the program at the discretion of the City.

Capital Assets

Prior to GASB Statement No. 34, capital assets for governmental funds were recorded in the General Fixed Assets Account Group and were not depreciated. The new reporting model requires that all capital assets, whether owned by governmental activities or business-type activities, be recorded and depreciated (unless the modified approach is used) in the government-wide financial statements. The City has chosen not to apply the modified approach to any networks or subsystems of infrastructure assets. No long-term assets or depreciation are shown in the governmental fund financial statements.

Capital assets, including public domain infrastructure (i.e., roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and other assets that are immovable and of value only to the City) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 (\$25,000 for capital improvement projects and infrastructure assets) and an estimated useful life greater than three years. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its life, are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Major capital outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, if material.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives (land and construction-in-progress are not depreciated):

<u>Assets</u>	<u>Useful life (years)</u>
Buildings	20–50
Improvements	10–20
Machinery and Equipment	5–20
Infrastructure	10–50

Committed Construction

At June 30, 2005 there were major uncompleted construction contracts as follows:

Airport Fund	\$ 570,284
HURF	2,277,498
Transportation Fund	10,403,314
Stormwater Fund	489,877
Water and Wastewater Fund	813,345
	<u>\$ 14,554,318</u>

On December 1, 2004, the City entered into a development agreement with Railhead Associates, LLC to redevelop and expand the Flagstaff Mall and general improvements in traffic flow, utilities and detention in the East Flagstaff Gateway Redevelopment area with the collateral benefit of creating additional development, including, but not limited to, an auto park for automobile sales and mixed use developments. As part of the agreement, the City is contributing \$10M to this redevelopment project. On December 15, 2004 the city's first payment of \$500,000 was made to the developer. Subsequent payments will be made on a percentage of completion basis. The agreement will terminate on the date that the developer has completed 100% of the improvements as outlined in the development agreement and the City has made the final payment of \$1M.

Compensated Absences

Vacation and sick leave is granted to all regular and part-time permanent employees. The annual amount of vacation time accrued varies depending on classification and years of service. Accumulated vacation leave vests and the City is obligated to make payment if the employee terminates. For the governmental fund financial statements, the current payroll and current portion of the compensated absences are recorded as a current liability of the applicable funds. Long-term liabilities of governmental funds are not shown on the fund financial statements. For the government-wide financial statements, as well as the proprietary fund financial statements, all of the accrued liabilities for compensated absences are recorded as a liability.

Sick leave accrues at rates based on the classification of each employee and years of service. Vested (at least 20 years of service) sick leave is payable upon retirement, disability or death of up to 50 percent (not more than 520 hours) of accumulated sick leave. These amounts are also accumulated in the government and business-type fund statements as well as the government-wide statements.

Long-Term Obligations

In the government-wide financial statements, and enterprise fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs in the period in which the bonds are issued. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Interfund Transactions

Interfund transactions, consisting of services performed for other funds or costs billed to other funds are treated as expenditures in the fund receiving the services and as a reimbursement reducing expenditures in the fund performing the services. Exceptions include water sales, sewer charges, and environmental service charges that are recorded as revenue in the enterprise funds and expenses or expenditures in the department receiving the service.

In addition, operating transfers are made between funds to shift resources from a fund legally authorized to receive revenue to a fund authorized to expend the revenue.

Fund Equity

In the fund financial statements, reserved fund equity is defined as that portion of fund equity that has legally been segregated for specific purposes. Designated fund equity is defined as that portion of fund equity for which the City has made tentative plans for future use of financial resources. Unreserved/Undesignated fund equity is defined as that portion of fund equity, which is available for use in a future period.

Statement of Cash Flows

The City considers all high liquid investments (including restricted assets) with an original maturity of three months or less to be cash equivalents. In a statement of cash flows, cash receipts and payments are classified according to whether they stem from operating, noncapital financing, capital and related financing, or investing activities.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Arbitrage

Arbitrage is generated when the a local government temporarily reinvests bond proceeds (generally during construction periods) and interest earnings are generated in excess of the interest due and payable on the bond. While there are certain exceptions in which the local government may keep the excess earnings, most instances require that the local government remit these excess earnings to the federal government. Rebatable amounts are recorded at such time they are actually due and payable to the federal government. The City of Flagstaff did not have any rebatable arbitrage for the year ended June 30, 2005.

II. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund financial statements are presented on a current financial resources measurement focus and modified accrual accounting basis while the government-wide financial statements are prepared on a long-term economic resources measurement focus and accrual accounting basis. Reconciliation's briefly explaining the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements immediately follow each fund financial statement.

Reconciliation of Governmental Funds Balance Sheet and the government-wide Statement of Net Assets:

	Total Governmental Funds	Capital Assets (1)	Long-Term Liabilities (2)	Internal Service Fund (3)	Reclass and Eliminations	Statement of Net Assets Totals
Assets						
Cash and cash equivalents	\$ 51,421,431	\$ -	\$ -	\$ 4,625,421	\$ -	\$ 56,046,852
Cash with fiscal agents	5,644,807	-	-	-	-	5,644,807
Investments	4,365	-	-	-	-	4,365
Accounts receivable, net	7,439,466	-	47,775	67,923	-	7,555,164
Interest receivable	286,364	-	-	26,652	-	313,016
Intergovernmental receivables	1,559,676	-	-	-	-	1,559,676
Bond proceeds receivable	182,365	-	-	-	-	182,365
Special assessments receivable	33,950	-	-	-	-	33,950
Interfund receivable	1,500,000	-	-	440,504	(1,500,000)	440,504
Prepaid items	-	-	473,172	-	-	473,172
Inventory	220,095	-	-	-	-	220,095
Restricted cash and cash equivalents	10,246,503	-	-	-	-	10,246,503
Capital assets	-	104,441,067	-	-	-	104,441,067
Total Assets	\$ 78,539,022	\$ 104,441,067	\$ 520,947	\$ 5,160,500	\$ (1,500,000)	\$ 187,161,536
Liabilities and Net Assets						
Accounts payable	\$ 2,419,751	\$ -	\$ -	\$ 270,637	\$ -	\$ 2,690,388
Accrued payroll and compensated absences	1,707,913	-	417,538	-	(1,056,055)	1,069,396
Interest payable	1,035,042	-	-	-	-	1,035,042
Interfund payable	1,500,000	-	-	-	(1,500,000)	-
Deferred revenue	798,686	-	(191,473)	-	-	607,213
Guaranty and other deposits	1,415,003	-	-	-	-	1,415,003
Unamortized bond premium	-	-	1,082,533	-	-	1,082,533
Liabilities payable from restricted assets	1,128,299	-	-	-	-	1,128,299
Compensated absences – current	-	-	1,694,596	-	1,056,055	2,750,651
Current bonds/contracts payable	4,610,000	-	46,950,000	-	-	51,560,000
Fund balance/Net Assets	63,924,328	104,441,067	(49,432,247)	4,889,863	-	123,823,011
Total liabilities and net assets	\$ 78,539,022	\$ 104,441,067	\$ 520,947	\$ 5,160,500	\$ (1,500,000)	\$ 187,161,536

- (1) Capital assets (land, buildings, equipment, etc.) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds, and thus a reduction in fund balance. However, the statement of net assets includes those capital assets among the assets of the City as a whole.

Costs of capital assets	\$ 136,723,427
Accumulated depreciation	(32,282,360)
	<u>\$ 104,441,067</u>

- (2) Bond issuance costs are expensed when incurred in governmental funds, but are deferred and amortized over the life of the bonds in the statement of net assets.

Unamortized bond issue costs	<u>\$ 473,172</u>
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Certain receivables are not recognized in the governmental funds, but are earned in the statement of net assets.

Deferred court receivables	<u>\$ 47,775</u>
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Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period, and accordingly are not reported as fund liabilities in the governmental fund statement. All liabilities, both current and long-term are reported in the statement of net assets.

Bonds payable	\$ 51,560,000
Compensated absences	2,529,672
Unamortized bond premium	1,082,533
Subtotal	<u>55,172,205</u>
Less: current compensated absences	417,538
current portion of bonds	4,610,000
	<u>\$ 50,144,667</u>

Deferred revenue for the long-term special assessment receivables and property tax shown on the governmental fund statements is not deferred on the statements of net assets.

Deferred special assessment	\$	33,950
Deferred property tax		157,523
	\$	<u>191,473</u>

(3) Internal service funds are used by management to charge the costs self insurance to the individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets, but are not included on the governmental fund balance sheet.

\$ 4,889,863

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

Reconciliation of Governmental Funds Statements of Revenues, Expenditures and Changes in Fund Balance and the government-wide Statement of Activities:

	Total Governmental Funds	Capital Related Items (1)	Long-Term Revenues/ Expenses (2)	Internal Service Fund (3)	Adjustments and Eliminations	Statement of Activities Totals
Revenues and Other Sources						
Taxes	\$ 35,529,373	\$ -	\$ (12,907)	\$ -	\$ -	\$ 35,516,466
Intergovernmental	17,545,686	-	-	-	-	17,545,686
Grants and entitlements	9,564,110	-	-	-	-	9,564,110
Charges for services	1,834,067	-	-	-	-	1,834,067
Special assessments	218,500	-	(218,500)	-	-	-
Licenses and permits	2,063,718	-	-	-	-	2,063,718
Fines and forfeitures	1,250,494	-	(41,534)	-	-	1,208,960
Rent	1,220,007	-	-	-	-	1,220,007
Investment earnings	1,589,293	-	-	114,568	-	1,703,861
Contributions	22,229	5,051,508	-	-	-	5,073,737
Miscellaneous	277,972	-	-	-	-	277,972
Total revenue	71,115,449	5,051,508	(272,941)	114,568	-	76,008,584
Expenditures/Expenses						
General governmental	6,158,308	661,076	(1,394,430)	16,991	-	5,441,945
Public safety	19,140,415	706,524	1,105,084	66,091	-	21,018,114
Public works	1,005,745	198,765	111,786	4,163	-	1,320,459
Economic and physical development	6,424,057	133,208	228,632	21,414	-	6,807,311
Culture and recreation	8,341,105	966,224	89,634	29,637	-	9,426,600
Highways and streets	8,951,097	951,601	77,049	31,484	-	10,011,231
Principal retirement	4,880,000	-	(4,880,000)	-	-	-
Interest and other charges	2,148,734	-	(106,179)	-	-	2,042,555
Capital outlay	17,053,841	(17,053,841)	-	-	-	-
Total expenditures/expenses	74,103,302	(13,436,443)	(4,768,424)	169,780	-	56,068,215
OTHER FINANCING SOURCES (USES):						
Refunding bonds issued	-	-	-	-	-	-
Loan proceeds	3,800,000	-	(3,800,000)	-	-	-
Payment to bond refunding escrow agent	-	-	-	-	-	-
Bond (discount) premium	-	-	-	-	-	-
Sale of capital assets	2,114,398	(1,732,011)	-	-	-	382,387
Transfers in	15,312,931	-	-	-	-	15,312,931
Transfers out	(16,582,052)	(5,735,244)	-	-	-	(22,317,296)
Total other financing sources (uses)	4,645,277	(7,467,255)	(3,800,000)	-	-	(6,621,978)
Net change for the year	\$ 1,657,424	\$ 11,020,696	\$ 695,483	\$ (55,212)	\$ -	\$ 13,318,391

- (1) When capital assets that are to be used in the governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of the financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year.

Capital outlay	\$	17,053,841
Depreciation expense		(3,617,398)
Gain (loss) on sale of capital assets		(1,732,011)
Transfer of capital assets to enterprise fund		(5,735,244)
Donated capital assets		5,051,508
	\$	<u>11,020,696</u>

- (2) Special assessment principal payments received are reported as revenue on the governmental fund statements, but are reductions to the outstanding special assessment debt for government-wide reporting. Property tax revenue not received within 30 days of year end are deferred for governmental fund reporting, but are not deferred for government-wide reporting.

Special assessment received	\$	(218,500)
Property tax		(12,907)
Court revenue		(41,534)
	\$	<u>(272,941)</u>

The costs of issuing bonds are reported as an expenditure in governmental funds in the year of bond issuance. For the City as a whole, however, the bond issuance costs are deferred and amortized (expensed) over the life of the bonds.

Amortization of bond issuance costs	\$	<u>(53,635)</u>
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Accrual of long-term compensated absences	\$	<u>(164,120)</u>
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Prepayment of bond principal is reported as an expenditure in governmental funds and thus has the effect of reducing fund balance because current financial resources have been used. For the City as a whole, however, the principal payments reduce the long-term liabilities in the statement of net assets and do not result in an expense in the statement of activities

Principal bond payments	\$	4,880,000
Lease proceeds		(3,800,000)
Amortization of bond premium		106,179
	\$	<u>1,186,179</u>

- (3) Internal service funds are used by management to charge the costs of self insurance to the individual funds. The adjustments for internal service funds "close" those funds by charging the additional amounts to participating governmental activities to completely cover the internal service funds' costs for the year.

Revenue	\$	114,568
Expenditures		(169,780)
	\$	<u>(55,212)</u>

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

Budget Basis of Accounting

The City's accounting records for General Government operations (General, Special Revenue, and Debt Service Funds) are maintained on a basis consistent with Generally Accepted Accounting Principles (GAAP) with measurable revenues recorded when they become available to finance expenditures in the current fiscal year. "Available" is defined as: collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than principal and interest on debt, are recognized in the accounting period in which the liability arises. State statute allows for encumbrances to be recognized for a 60-day period following the end of the prior fiscal year as uses of prior year appropriations. To ensure that appropriations do not lapse, departments are directed to re-budget for all items delivered after June 30.

For the Enterprise Funds, the annual budget is prepared on a basis that differs from GAAP because state law requires capital purchases and debt service payments to be budgeted as expenses, and bond proceeds and grants that are to be utilized are to be budgeted as revenues.

The accounting and budgeting systems for the City are in accordance with Generally Accepted Accounting Principles (GAAP) format, with minimal variances between the two systems. Budget basis for enterprise funds differ primarily due to state laws. The major differences are as follows:

- Encumbrances (contractual commitments) are considered the equivalent of expenditures. Encumbrances at year-end for goods or services, which are not received prior to the end of the fiscal year, are cancelled.
- Fund balances reserved to inventory and bonded debt are not included in the budget.
- Certain expenditures, such as depreciation and landfill closure and post closure accrual, are not included in the budget.
- All funds except the Internal Service Fund are budgeted.
- Enterprise funds budget capital expenditures and debt service payments as expenses.
- Enterprise funds budget bond proceeds and grants as revenues.

The City will utilize a number of different fund types to segregate the financial activity within the City either due to regulatory reasons or as designated internally. The fund classifications are Governmental funds, Proprietary funds and Fiduciary funds.

Review and Approval

Issues presented during the review and approval period include discussion topics of the Council fall and spring retreats. The fall and spring retreats were held in November and February respectively, to give City staff the opportunity to present major discussion points to Council and the public. The goal is for Council to make policy decisions and direct staff in preparing the budget. This provides adequate time for the Council to gather input on major budget issues prior to preparation of the budget. The City Council holds Study Sessions in May. The Council reviews and discusses the issue papers included in the Budget Review Book as well as all personnel recommendations, capital equipment recommendations, and the capital improvement plan. The Council arrives at a consensus for all decisions needed. The Study Sessions provide the opportunity for City management, departments and the public to offer information and recommendations to the City Council.

The proposed budget is presented to Council for tentative adoption on or before the third Monday in July. Two public hearings are held on the content of the budget. Final adoption occurred on July 6, 2004. State law requires the operating budget to be all-inclusive. Therefore, the budget includes provisions for contingent revenues, e.g., Passengers Facility Charges, and expenditures that cannot be accurately determined when the budget is adopted,

e.g., grants. The Resolution adopting the annual budget requires Council authorization for any expenditure from contingencies, as well as transfer of budget authority between departments.

The City operates under the State Expenditure Limitation with a one-time adjustment to the base. The adjustment provided for an increase to the base limit to allow for the expenditure of funds resulting from the addition of a 2% Bed, Board, & Booze Tax. Flagstaff is not a Home Rule city. Alternative [Home Rule] Expenditure Control municipalities require voter approval every four years.

The Adopted Budget reflects the total funds appropriated. Certain exclusions are allowed by the state [e.g., bond proceeds, debt service, grants] in computing the Expenditure Limitation and this total cannot be exceeded.

Budget authority can be transferred between line items within a Division. At year-end, Department budgets are reviewed and budget authority is transferred from contingencies by Resolution as necessary. Additionally, any inter-fund transfer of appropriations requires Council approval. Council can also amend total appropriations for a fund during the year by Resolution as long as there is a corresponding increase/decrease in another fund so that the expenditure limitation is not exceeded.

B. DEFICITS IN FUND EQUITY/EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The following fund had an accumulated fund deficit at June 30, 2005:

Type	Fund	Deficit Amount
Capital Projects	Capital Project Bond Construction Fund	\$970,005

The deficit in the Capital Project Bond Construction fund is primarily due to the timing of bond eligible expenditures occurring prior to the related debt being issued. The City plans to issue related debt over the next fiscal year.

For the year ended June 30, 2005, expenditures, including capital outlay and transfers, did not exceed budget at the department level in any funds. However, budgetary comparisons provided in the basic financial section and supplemental section are presented at the functional level of detail, the same level of detail used to present current expenditures in the statement of revenues, expenditures, and changes in fund balances. This comparison is not sufficient to demonstrate the legal level of budgetary control, which is at the department level (i.e., the fire department is presented with public safety at the functional level, and as Fire at the department level). The table below is presented at the department level and demonstrates the budgetary comparison for all governmental funds.

	Final Budget	Actual	Variance
General Administration	\$ 6,294,291	\$ 5,857,199	\$ 437,092
Community Development	31,983,548	18,062,208	13,921,340
Management Services	7,444,556	6,927,453	517,103
Fire	7,881,104	7,358,821	522,283
Police	12,705,839	12,309,871	395,968
Public Works	36,956,097	19,252,878	17,703,219
Utilities	40,597	40,597	-
Non-Departmental	11,102,871	4,284,977	6,817,894
Contingency	625,000	9,298	615,702
	<u>\$ 115,033,903</u>	<u>\$ 74,103,302</u>	<u>\$ 40,930,601</u>

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds except the Fireman's Pension Fund, which have investments held separately by a trustee. Each fund type's portion of this pool is displayed on the government-wide Statement of Net Assets as "Cash and cash equivalents," "Cash with fiscal agents," "Investments," and "Restricted cash and cash equivalents."

Deposits

At June 30, 2005, the carrying amount of the City's deposits was \$18,936,173 and the bank balance was \$18,072,496. The \$863,677 difference represents deposits in transit, outstanding checks, and other reconciling items at June 30, 2005.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 102 percent of all deposits covered by federal depository insurance. As of June 30, 2005, the City deposits held by Wells Fargo and those held by fiscal agents were covered by federal depository insurance or by collateral held by the City's agent in the City's name. However, \$3.8 million held by Banc of America Leasing Corporation for capital lease improvements was not collateralized. These funds will be drawn down through out fiscal year 2006 as funded improvements are completed. GASB Statement No. 40 requires that the following disclosure be made with respect to custodial credit risks relating to deposits and investments: \$28,992 of the City's investments in certificates of deposit with financial institutions is in excess of federal depository insurance limits and thus is uncollateralized.

Concentration of Credit Risk

To lessen the risk of loss attributed to the magnitude of a government's investment in a single issuer the City diversifies its investment portfolio to minimize the risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of securities. Certificates of deposits and municipal bonds represent 8 percent of the City's total investments.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy matches maturities with cash flow dates, unless matched to a specific requirement the city may not invest more than 25 percent of the portfolio for a period greater than three years or any portion of the portfolio for a period greater than 10 years.

Credit Risk

City resolution and State Statutes authorized the City to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, repurchase agreements, money market accounts, certificates of deposit and the State of Arizona Local Government Investment Pool (LGIP). The LGIP is a part of the State Treasurer's office. The State Board of Deposit provides oversight for the State Treasurer's pools, and the LGIP Advisory Committee provides consultation and advice to the Treasurer. The credit quality ratings of investments as described by nationally recognized Standard and Poor's rating service as of June 30, 2005 is as follows:

Investment Type	Fair Value	Minimum Legal Rating	Not Required To Be Rated	Rating as of Year End		
				AAA	A+	Unrated
U.S. Treasury notes	\$ 2,489,060	N/A	2,489,060	-	-	-
Federal agency securities	52,841,728	N/A		52,841,728	-	-
Certificates of Deposit:	7,874,023	Collateralized		-	-	7,874,023
State investment pool (LGIP)	19,655,950	N/A		-	-	19,655,950
Municipal Securities	60,000	A		-	60,000	-
Held by trustee:						
Investment contracts	6,321,817	N/A	-	-	-	6,321,817
Money market funds	2,091,930	N/A	-	-	-	2,091,930
Total	\$ 91,334,508		2,489,060	52,841,728	60,000	35,943,720

Investments

At June 30, 2005, the City's investments included the following:

Investment Type	Fair Value	Weighted Average Maturity (in years)
U.S. Government Securities	\$ 55,330,788	1.703
Certificate of Deposit	7,745,031	1.944
Local Government Securities	128,992	1.000
Municipal Securities	60,000	5.000
Mutual fund-money market	8,413,747	0.003
State of Arizona Investment Pool	19,655,950	0.005
Total fair value of investments	\$ 91,334,508	
Portfolio weighted average maturity		1.189

Total City cash deposits and investments at fair value are as follows:

Carrying amount of investments	\$ 91,334,508
Carrying amount of cash deposits	18,936,173
Total pooled cash and investments	\$ 110,270,681
Pooled cash and cash equivalents – unrestricted	\$ 82,475,893
Investments – unrestricted	693,016
Restricted cash with fiscal agent	8,884,428
Restricted cash and cash equivalents	18,217,344
Total pooled cash and investments	\$ 110,270,681

Cash and cash equivalents at June 30, 2005 consisted of the following:

Investments included in cash and cash equivalents	\$ 63,743,937
Carrying amount of city deposits	18,936,173
Cash on hand	12,225
Total cash and cash equivalents	82,692,335
Less: cash and cash equivalents of Fiduciary funds	(216,442)
Total cash and cash equivalents per statement of net assets	\$ 82,475,893

Investment income comprises the following for the year ended June 30, 2005:

Net interest and dividends	\$ 2,673,170
Net increase (decrease) in the fair value of investments	(27,744)
Total net investment income	2,645,426
Less: net investment income of Fiduciary funds	(5,592)
Total net investment income per statement of activities	\$ 2,639,834

The net decrease in the fair value of investments during fiscal year 2004–2005 was \$27,744. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized gain (loss) on investments held at June 30, 2005 was \$(764,853).

In the previous year, the City reported a decrease in fair value of \$1,473,712 consisting of the City's share of a loss on an investment within the Local Government Investment Pool. The State and numerous other bondholders filed suit against the principals, underwriters, trustees, accountants and other in May 2003. The case is presently pending in federal court in Ohio. No reliable assessment of the litigation outcome is available; however, the City has received \$168,672 plus interest of \$903 as a partial recovery.

B. RECEIVABLES

Receivables as of June 30, 2005, including allowances for uncollectible accounts, are as follows:

Fund	Accounts	Interest	Intergov- ernmental	Bond Proceeds	Special Assessments	Total Receivables
Governmental Activities						
General	\$ 4,662,026	\$ 132,438	\$ 740,920	\$ 182,365	\$ –	\$ 5,717,749
Highway User Revenue	2,259,235	43,662	86,455	–	–	2,389,352
Transportation	833,996	41,993	–	–	–	875,989
BBB	549,738	30,331	–	–	–	580,069
Other Governmental Funds	159,975	37,940	732,301	–	33,950	964,166
Less: Allowance for Uncollectibles	(977,729)	–	–	–	–	(977,729)
Total Government Funds	7,487,241	286,364	1,559,676	182,365	33,950	9,549,596
Internal Services Funds	67,923	26,652	–	–	–	94,575
Total Governmental Activities	7,555,164	313,016	1,559,676	182,365	33,950	9,644,171
Business-Type Activities						
Water and Wastewater	2,098,145	135,640	37,258	–	–	2,271,043
Environmental Services	803,990	50,789	123,339	–	–	978,118
Airport	67,720	6,448	333,718	–	–	407,886
Stormwater	51,401	5,860	–	–	–	57,261
Less: Allowance for Uncollectibles	(60,000)	–	–	–	–	(60,000)
Total Business-Type Activities	2,961,256	198,737	494,315	–	–	3,654,308
Total activities	\$ 10,516,420	\$ 511,753	\$ 2,053,991	\$ 182,365	\$ 33,950	\$ 13,298,479

C. CAPITAL ASSETS

The City has not completed its evaluation of the City's entire infrastructure as of June 30, 2005, and therefore, is considered to be in a transition period. This period represents the timing between the adoption of the general provisions of GASB Statement No. 34 and when the City begins to report its retroactive major general infrastructure assets. Infrastructure assets currently reported represent assets placed in service since the inception of GASB Statement No. 34, which became instrumental as of June 30, 2003. No infrastructure prior to this date has been accounted for. The City will complete the infrastructure evaluation prior to June 30, 2007.

A summary of capital asset activity, for the government-wide financial statements, for the fiscal year ended June 30, 2005 is as follows:

	Balance July 1, 2004	Additions	Deletions and Retirements	Transfers In (out)	Balances June 30, 2005
Governmental activities:					
Non-depreciable assets:					
Land	\$ 9,888,849	\$ 680,412	\$ (1,532,036)	\$ -	\$ 9,037,225
Construction -in-progress	26,684,918	12,054,676	-	(7,319,362)	31,420,232
Total non-depreciable assets	36,573,767	12,735,088	(1,532,036)	(7,319,362)	40,457,457
Depreciable assets:					
Buildings	35,459,195	1,116,496	-	-	36,575,691
Improvements	13,511,887	366,501	(284,829)	(25,160)	13,568,399
Machinery and equipment	21,123,879	1,309,723	(575,453)	-	21,858,149
Infrastructure	16,080,162	6,577,541	-	1,606,028	24,263,731
Total depreciable assets	86,175,123	9,370,261	(860,282)	1,580,868	96,265,970
Accumulated depreciation:					
Buildings	(9,957,933)	(817,211)	-	-	(10,775,144)
Improvements	(6,210,087)	(728,294)	90,506	364	(6,847,511)
Machinery and equipment	(12,661,774)	(1,547,502)	569,801	-	(13,639,475)
Infrastructure	(498,725)	(524,391)	-	2,886	(1,020,230)
Total accumulated depreciation	(29,328,519)	(3,617,398)	660,307	3,250	(32,282,360)
Governmental activities capital assets, net	<u>\$ 93,420,371</u>	<u>\$ 18,487,951</u>	<u>\$ (1,732,011)</u>	<u>\$ (5,735,244)</u>	<u>\$ 104,441,067</u>
Business-type activities:					
Non-depreciable assets:					
Land	\$ 2,357,360	\$ -	\$ -	\$ -	\$ 2,357,360
Construction -in-progress	6,516,367	6,698,315	-	1,822,153	15,036,835
Total non-depreciable assets	8,873,727	6,698,315	-	1,822,153	17,394,195
Depreciable assets:					
Buildings	72,600,303	66,496	(103,766)	437,404	73,000,437
Improvements	220,188,940	9,123,536	-	3,444,442	232,756,918
Machinery and equipment	18,307,519	1,724,107	(351,190)	34,495	19,714,931
Total depreciable assets	311,096,762	10,914,139	(454,956)	3,916,341	325,472,286
Accumulated depreciation:					
Buildings	(24,959,312)	(1,639,653)	46,770	-	(26,552,195)
Improvements	(69,050,753)	(5,342,398)	-	(3,250)	(74,396,401)
Machinery and equipment	(10,562,185)	(941,192)	351,190	-	(11,152,187)
Total accumulated depreciation	(104,572,250)	(7,923,243)	397,960	(3,250)	(112,100,783)
Business-type activities capital assets, net	<u>\$ 215,398,239</u>	<u>\$ 9,689,211</u>	<u>\$ (56,996)</u>	<u>\$ 5,735,244</u>	<u>\$ 230,765,698</u>

Depreciation expense was charged to the governmental functions in the government-wide financial statements as follows:

Governmental Activities:		
General government	\$	661,075
Public safety		706,524
Public works		198,765
Economic and physical development		133,208
Culture and recreation		966,225
Highway and streets		951,601
Total depreciation expense – governmental activities	\$	<u>3,617,398</u>

D. INTERFUND RECEIVABLES, PAYABLES, and TRANSFERS

Interfund receivables and payables

Net interfund receivables and payables between governmental activities and business-type activities of \$440,504 are included in the government-wide financial statements at June 30, 2005. The interfund balances at June 30, 2005 are short-term loans to cover temporary cash deficits in various funds. This occasionally occurs prior to bond sales or grant reimbursements. All interfund balances outstanding at June 30, 2005 are expected to be repaid within one year.

The following interfund receivables and payables are included in the fund financial statements at June 30, 2005:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental Funds:		
General	\$ 1,500,000	\$ –
Other governmental funds	–	1,500,000
Internal Service	94,897	–
Total governmental funds	<u>1,594,897</u>	<u>1,500,000</u>
Business-Type Funds:		
Airport	–	94,897
Total enterprise funds	<u>–</u>	<u>94,897</u>
Total governmental and enterprise funds	<u>\$ 1,594,897</u>	<u>\$ 1,594,897</u>

Transfers

The net transfers of \$7,004,365 from governmental activities to business-type activities on the government-wide statement of activities are primarily debt service and operational subsidies from the General Fund. The following transfers are reflected in the fund financial statements for the year ended June 30, 2005:

<u>Fund</u>	<u>Transfers out</u>	<u>Transfers In</u>
Governmental Funds:		
General	\$ 10,660,379	\$ 3,229,424
Highway User Revenue	136,059	7,291,262
Transportation	5,845,432	250,000
BBB	1,671,905	1,210,000
Other governmental funds	4,003,521	3,332,245
Total governmental funds	<u>22,317,296</u>	<u>15,312,931</u>
Business-Type Funds:		
Water and Wastewater	2,398,830	2,398,830
Environmental Services	4,678	15,000
Airport	-	634,831
Stormwater	62,000	6,421,212
Total enterprise funds	<u>2,465,508</u>	<u>9,469,873</u>
Total governmental and enterprise funds	<u>\$ 24,782,804</u>	<u>\$ 24,782,804</u>

E. LEASES

Operating Leases Expenditures

The City leases library space under a non-cancelable operating lease. The lease is for the East Flagstaff Library. The terms of the contract is for a period of 10 years with adjustments on July 1st to the lease amount based on the prior year change in the Consumer Price Index for the prior year. Fiscal Year 2005 lease expense for the library was \$70,505. The schedule below for future minimum lease expenses reflects the change in the rental rate as of July 1, 2005.

<u>Fiscal Year</u>	<u>East Flagstaff</u>
<u>Ending June 30</u>	<u>Library</u>
2006	\$ 75,268
2007	75,268
2008	75,268
2009	75,268
2010	75,268
2011-2013	<u>200,715</u>
Total	<u>\$ 577,055</u>

The City has entered into several operating lease agreements, with cancellation provisions, for the purpose of leasing office space and land. Lease expenditures for these items for the period ending June 30, 2005 were \$144,050.

Operating Lease Revenues

The City leases several City-owned buildings under cancelable and non-cancelable agreements. The carrying value of the leased assets is \$5,138,610 (cost of \$5,600,367 less accumulated depreciation of \$461,757) with current depreciation of \$185,614. Certain leases contain provisions for future rate increases based on changes in the Consumer Price Index. Total revenue for fiscal year 2005 was \$1,189,156. The City currently has one lease with non-cancelable terms that is for USGS building #6, which is guaranteed through August 2013. The following table represents the future minimum lease receivable from the lease with non-cancelable terms. The amounts shown include revenue related to the asset and the operational expenses.

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>USGS</u> <u>Building #6</u>
2006	\$ 767,567
2007	768,346
2008	768,346
2009	768,346
2010	768,346
2011-2013	<u>1,664,749</u>
Total	\$ <u><u>5,505,700</u></u>

In addition, the Airport Fund has several leases under cancelable agreements. The leases are for terminal space, hangars, shades, tiedowns, and ground leases. Lease revenue in the Airport fund for fiscal year 2005 was \$781,013. The carrying value of the leased assets is \$3,511,901 (cost of \$6,229,495 less accumulated depreciation of \$2,717,594) with current year depreciation of \$130,957.

F. LONG-TERM DEBT

General Obligation Bonds

The City of Flagstaff issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The original amount of general obligations bonds issued in prior years was \$40,844,240. During the year, \$32,117 of accretion had been added to Water and Wastewater General Obligation bonds.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. The Water and Wastewater General Obligation Bonds are backed by the ultimate taxing power and general revenues of the City; however, these bonds are carried as a liability of the Water and Wastewater Fund to reflect the intention of the City to retire those bonds from resources in the Water and Wastewater Fund.

General obligation bonds outstanding at June 30, 2005:

<u>Purpose</u>	<u>Amount</u>
Governmental activities	\$ 3,565,000
Governmental activities - refunding	720,000
Business type activities	2,180,018
Business type activities - refunding	<u>16,700,000</u>
	<u><u>\$23,165,018</u></u>

General obligation bonds payable at June 30, 2005 consist of the following individual issues:

Governmental Activities:

\$4,000,000 Parks and Recreation Bonds, Series 1997 due in annual installments of \$405,000 to \$465,000 through July 1, 2006; interest rate at 4.6% to 4.8%.	\$	465,000
\$3,100,000 Parks and Recreation Bonds, Series 2001 due in annual installments of \$385,000 to \$505,000 through July 1, 2014; interest rate at 4.375% to 4.75%.		3,100,000
\$720,000 Parks and Recreation Refunding Bonds, Series 2003 due in annual installments of \$255,000 to \$465,000 through July 1, 2008; interest rate at 3.0% – 3.25%.		720,000
Total Governmental Activities		<u>4,285,000</u>

Business-type activities:

Water and Wastewater:

\$924,240 Wastewater Improvement Project of 1991 Capital Appreciation Bonds due in three installments: \$595,827 due July 1, 1997, plus interest at 5.8%; \$124,349 due July 1, 2002, plus interest at 6.3%; \$204,064 due July 1, 2007, plus interest at 6.75%. Shown at combined accreted value.	\$	500,018
\$8,000,000 Water Improvement Project Bonds, Series 1997, principal payment of \$1,680,000 due July 1, 2013; interest at 4.5%. Fiscal years 2007–2012 refunded in December 2003.		1,680,000
\$13,845,000 Water and Wastewater Refunding Bonds Series 2001, due in annual installments of \$1,605,000 to \$2,355,000 through July 1, 2009; interest at 3% to 5%.		8,280,000
\$8,230,000 Water Refunding Bond, Series 2003, due in annual installments of \$190,000 to \$1,960,000 through July 1, 2013; interest at 3.0% – 3.25%.		<u>7,195,000</u>
Total Water and Wastewater		<u>17,655,018</u>

Airport:

\$2,025,000 Airport Refunding Bonds, Series 2001 due in annual installments of \$235,000 to \$345,000 through July 1, 2009; interest at 3% to 5%.		<u>1,225,000</u>
Total Business-type Activities		<u>18,880,018</u>
Total General Obligation Bonds	\$	<u>23,165,018</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2006	\$ 465,000	\$ 185,559	\$ 2,495,000	\$ 784,365
2007	465,000	163,238	3,075,018	697,026
2008	640,000	149,289	2,795,000	545,100
2009	405,000	124,158	3,055,000	409,988
2010	425,000	105,933	1,770,000	263,450
2011-2014	1,885,000	224,109	5,690,000	433,179
Total	<u>\$ 4,285,000</u>	<u>\$ 952,286</u>	<u>\$ 18,880,018</u>	<u>\$ 3,133,108</u>

Special Assessment Bonds

Proceeds from special assessment bonds are used for improvements such as paving, sidewalks, and sewers. Payments made by the assessed property owners are pledged as collateral. In the event of default by a property owner, the lien created by the assessment is sold at public auction and the proceeds are used to offset the defaulted assessment. If there is no purchase at the public auction, the City is required to buy the property with funds appropriated from the General Fund.

Special assessment bonds outstanding at June 30, 2005:

Purpose	Amount
Governmental Activities	\$415,000

Special assessment bonds payable at June 30, 2005 consist of the following individual issues:

Governmental Activities

\$720,000 Improvement District Bonds, Series 1999 due in annual installments of \$43,000 to \$94,000, through January 1, 2010; interest at 4.9%.	\$ <u>415,000</u>
Total Special Assessment Bonds	\$ <u>415,000</u>

Annual debt service requirements to maturity for special assessment bonds are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2006	\$ 75,000	\$ 18,498
2007	76,000	14,798
2008	82,000	10,877
2009	88,000	6,712
2010	94,000	2,303
Total	<u>\$ 415,000</u>	<u>\$ 53,188</u>

Revenue Bonds

Highway User Revenue Fund bonds (HURF) are issued specifically for the purpose of constructing street and highway projects. These bonds are repaid out of the HURF fund by gas tax revenues collected by the State of Arizona and distributed to cities and towns based on a formula of population and gas sales within each county.

Water & Sewer Revenue bonds are issued as authorized by the voters for the construction, acquisition, furnishing, and/or equipping of water and sewer facilities and related systems. The Water & Sewer Revenue bonds are collateralized by revenue in excess of operating and maintenance expenses of the City's water & sewer utility system, and are repaid via user charges or fees for service.

Revenue bonds outstanding at June 30, 2005:

<u>Purpose</u>	<u>Amount</u>
Governmental activities	\$ 5,580,000
Governmental activities – refunding	5,975,000
Business type activities	<u>6,034,792</u>
	<u>\$17,589,792</u>

Revenue bonds at June 30, 2005 consist of the following individual issues:

Governmental Activities:

Street Construction:

\$5,580,000 Junior Lien Street and Highway User Revenue Bonds, Series 1992 serial bonds due in installments of \$350,000 to \$1,725,000 through July 1, 2012; interest at 6.12%.

\$ 5,580,000

\$9,375,000 Street and Highway Revenue Refunding Bonds, Series 2003 serial bonds due in installments of \$165,000 to \$1,940,000 through July 1, 2009; interest at 2% to 3.5%

5,975,000

Total Governmental Activities

11,555,000

Business-type Activities:

Water & Sewer:

\$6,775,760 Water and Wastewater Revenue Bonds, Series 2003 due in annual installments of \$238,431 to \$462,398 through July 1, 2022; interest at 3.548%.

6,034,792

Total Revenue Bonds

\$ 17,589,792

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2006	\$ 1,890,000	\$ 526,285	\$ 264,717	\$ 214,084
2007	1,940,000	469,585	274,108	204,693
2008	1,400,000	411,385	283,832	194,969
2009	1,460,000	344,010	293,900	184,901
2010	1,520,000	280,135	304,327	174,474
2011-2015	3,345,000	285,330	1,691,440	702,566
2016-2022	—	—	2,922,468	429,141
Total	<u>\$ 11,555,000</u>	<u>\$ 2,316,730</u>	<u>\$ 6,034,792</u>	<u>\$ 2,104,828</u>

Other Debt

Municipal Facility Corporation Bonds

The Municipal Facilities Corporation (MFC) is a non-profit corporation created by the City for the purpose of constructing, acquiring and equipping municipal facilities. In fiscal year 2001 the MFC issued \$4.7 million in bonds for the construction of a new United States Geological Survey (USGS) facility on land owned by the City. In fiscal year 2004, the MFC issued \$25 million in bonds for the construction of the Fourth Street Overpass on land owned by the City. The City will make lease payments equal to the debt service on both issues and will obtain legal title upon payment in full of the bonds. The City has collateralized the contracts payable to the MFC by a pledge of the City's State Shared Revenues which comprise sales and income taxes imposed and collected by the State and distributed to counties and municipal governments pursuant to law and State revenue-sharing which the City presently or in the future receives from the State and which are not earmarked by the State for a contrary or inconsistent purpose.

Municipal facility corporation bonds outstanding at June 30, 2005:

Purpose	Amount
Governmental Activities	\$26,895,000

Municipal facility corporation bonds are comprised of the following issue:

\$4,700,000 USGS Project Bonds Series 12 (2001) due in annual installments of \$255,000 to \$440,000 through August 1, 2016; interest at 4% to 4.75%.	\$ 3,905,000
\$25,000 Fourth Street Municipal Facility Corporation Revenue Bonds, Series 2003 due in annual installments of \$1,000,000 to \$2,145,000 through July 1, 2010; interest at 2% to 5.25%.	22,990,000
Total Other Debt	<u>\$ 26,895,000</u>

Year Ending June 30	Governmental Activities	
	Principal	Interest
2006	\$ 1,285,000	\$ 1,162,699
2007	1,295,000	1,128,799
2008	1,315,000	1,094,499
2009	1,375,000	1,031,384
2010	1,735,000	985,814
2011–2015	9,730,000	3,870,324
2016–2020	10,160,000	1,598,861
Total	<u>\$ 26,895,000</u>	<u>\$ 10,872,380</u>

Loans Payable

In July 1992 the City of Flagstaff entered into a loan agreement with the Wastewater Infrastructure Finance Authority of Arizona for the purpose of constructing reclaimed water lines for the new reclaimed water plant. The \$6,000,000 loan is scheduled to be paid in annual installments over twenty years with an interest rate of 3.402%. The unpaid principal of the loan at June 30, 2005 is \$2,567,902.

In September 1999 the City of Flagstaff entered into a loan agreement with Arizona Department of Transportation Aeronautics Division for the purpose of constructing a 14 unit T hangar. The \$600,000 loan is scheduled to be paid in quarterly installments over 17 years with an annual interest rate of 5.6%. The unpaid principal amount of the loan at June 30, 2005 is \$463,595.

Capital Leases

The City has entered into capital lease agreements for energy saving equipment and construction of Hangars at Pulliam Airport. These lease agreements generally require annual payments and the lease terms vary from 10 to 30 years. The lease agreements qualify as capital leases for accounting purposes and, therefore have been recorded at the present value of their future minimum lease payments as of the date of inception.

Fiscal Year Ending June 30, 2005	Governmental Activities	Business Type Activities
2006	\$ 470,993	\$ 231,736
2007	470,993	231,736
2008	470,993	231,736
2009	470,993	231,736
2010	470,993	231,736
2011–2015	2,119,468	1,158,680
2016–2020	–	1,158,680
2021–2025	–	1,274,548
Total minimum lease payments	<u>4,474,433</u>	<u>4,750,588</u>
Less: current portion	(470,993)	(231,736)
Future minimum lease payments	<u>\$ 4,003,440</u>	<u>\$ 4,518,852</u>

Changes in long-term liabilities

Liquidation of compensated absences for governmental funds have been made out of the General, HURF, BBB, Library, and MPO funds.

Non-current liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 5,795,000	–	\$ (1,510,000)	\$ 4,285,000	\$ 465,000
Special assessment bonds	685,000	–	(270,000)	415,000	75,000
Revenue bonds	13,380,000	–	(1,825,000)	11,555,000	1,890,000
Municipal facility corp bonds	28,170,000	–	(1,275,000)	26,895,000	1,285,000
Total bonds payable	48,030,000	–	(4,880,000)	43,150,000	3,715,000
Capital leases	–	3,800,000	–	3,800,000	354,448
Compensated absences	2,570,527	802,637	(622,513)	2,750,651	1,056,055
Governmental activity long-term liability	<u>\$ 50,600,527</u>	<u>\$ 4,602,637</u>	<u>\$ (5,502,513)</u>	<u>\$ 49,700,651</u>	<u>\$ 5,125,503</u>
Business-type activities:					
Bonds payable:					
General obligation bonds	\$ 21,252,902	–	\$ (2,372,884)	\$ 18,880,018	\$ 2,960,000
Water & sewer revenue bonds	6,290,440	–	(255,648)	6,034,792	264,717
Total bonds payable	27,543,342	–	(2,628,532)	24,914,810	3,224,717
Water & sewer loan payable	2,888,081	–	(320,179)	2,567,902	331,072
Airport loan payable	491,596	–	(28,001)	463,595	29,602
Capital leases	–	2,782,598	(50,683)	2,731,915	80,264
Compensated absences	426,773	241,315	(187,841)	480,247	193,167
Landfill closure/postclosure	2,191,065	527,821	(637,880)	2,081,006	–
Business-type activity long-term liability	<u>\$ 33,540,857</u>	<u>\$ 3,551,734</u>	<u>\$ (3,853,116)</u>	<u>\$ 33,239,475</u>	<u>\$ 3,858,822</u>

V. OTHER INFORMATION

A. Risk management

The City is exposed to various risks of loss related to torts and public officials' errors and omissions. The City purchases commercial insurance to cover these losses. However, \$50,000 of each claim resulting in a loss is retained by the City. The City provides for the self-insurance retention in the internal service fund. Outstanding claims as of June 30, 2005 have potential exposure to the City of approximately \$230,216 based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The City uses an application of historical experience to determine claims payable. However, due to the preliminary status of the claims, no determination can be made as to the likelihood, if any, of an unfavorable outcome. The net assets of the Internal Service Fund are designated for future losses related to the self-insurance retention. Settled claims have not exceeded commercial coverage in the last three fiscal years.

Fiscal Year	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Year Liability
2002-03	\$ 224,630	\$ 328,835	\$ 142,265	\$ 411,200
2003-04	411,200	8,352	224,875	194,677
2004-05	194,677	69,326	33,787	230,216

The City of Flagstaff participates in a risk sharing pool for employee health care, through the Northern Arizona Public Employees Trust, a public entity risk pool. Members do not bear any risk of loss. The overall experience rating of the trust determines premium charges.

B. Contingent liabilities

The City is aware of existing environmental contamination at various sites and facilities. The City has annually budgeted monies for these purposes and includes remediation activities in its annual work program. The City has a compliance agreement for Americans with Disability Act with the Department of Justice (DOJ) and until all items are completed to the satisfaction of the DOJ, there remains a minimal amount of liability.

C. Retirement and pension plans

Plan Descriptions – The City contributes to the four plans described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

The *Arizona State Retirement System* (ASRS) administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the City. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, and Article 2.

The *Public Safety Personnel Retirement System* (PSPRS) is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The *Elected Officials Retirement Plan* (EORP) is a cost-sharing multiple-employer defined benefit pension plan that covers elected officials and judges of certain state and local governments. The EORP is governed by The Fund Manager of PSPRS according to the provisions of A.S.R. Title 38, Chapter 5, and Article 3.

Each plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the applicable plan.

ASRS

3300 N. Central Ave.
P.O. Box 33910
Phoenix, AZ 85067-3910
(602) 240-2200/(800) 621-3778

PSPRS and EORP

3010 E. Camelback Rd., Suite 200
Phoenix, AZ 85016-4416
(602) 255-5575

Funding Policy – The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rates.

Cost Sharing Plans – For the year ended June 30, 2005, active ASRS members and the City were each required by statute to contribute at the actuarially determined rate of 5.70% (5.20% retirement and 0.50% long-term disability) of the members' annual covered payroll. The City's contributions to ASRS for the years ended June 30, 2005, 2004, and 2003 were \$1,239,656, \$1,170,656 and \$578,235, respectively, which were equal to the required contributions for the year.

In addition, active EORP members were required by statute to contribute 7.00% of the members' annual covered payroll. The City was required to contribute 20.54% of the members' annual covered payroll, as determined by actuarial valuation. The City's contributions to EORP for the years ended June 30, 2005, 2004, and 2003 were \$8,728, \$3,804 and \$1,861 respectively, which were equal to the required contributions for the year. In addition, a payment of \$4,220 was made in each year as an installment due for its unfunded accrued liability.

Agent Plan – For the year ended June 30, 2005, active PSPRS members were required by statute to contribute 7.65% of the members' annual covered payroll, and the City was required to contribute at the actuarially determined rate of 14.39% and 13.81% for Police and Fire respectively.

Annual Pension Cost – The City's pension cost for the agent plan for the year ended June 30, 2003, the date of the most recent actuarial valuation, and related information follow.

<u>Contribution rates:</u>	<u>PSPRS</u>
City – Police	14.39%
City – Fire	13.81%
Plan members	7.65%
Annual pension cost	\$ 921,120
Contributions made	\$ 921,120
Actuarial valuation date	6/30/05
Actuarial cost method	Individual entry age
Actuarial assumptions:	
Investment rate of return	8.75%
Projected salary increases	6.25% – 9.25%
Includes inflation at	5.25%
Amortization method	Level percentage open
Remaining amortization period from 7-1-00	20 years
Asset valuation method	Smoothed market value

Trend Information – Information for the agent plan as of most recent actuarial valuations follows.

Contributions Required and Contributions Made

Plan	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PSPRS 2005			
Police	\$570,046	100%	\$ -0-
Fire	351,094	100%	-0-
PSPRS 2004			
Police	\$443,928	100%	\$ -0-
Fire	192,873	100%	-0-
PSPRS 2003			
Police	199,908	100%	-0-
Fire	78,897	100%	-0-

Funding Progress – An analysis of funding progress for each of the agent plans as of the most recent actuarial valuations, June 30, 2004 follows.

	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry Age	(3) Percent Funded (1) / (2)	(4) Unfunded AAL (2) – (1)	(5) Annual Covered Payroll	(6) Unfunded AAL as a Percentage of Covered Payroll (4)/(5)
PSPRS 2004						
Police	\$ 23,305,327	\$ 27,287,891	85.4%	\$ (3,982,564)	\$ 4,839,097	-%
Fire	32,966,185	34,472,797	95.6%	1,506,612	3,879,272	-%
PSPRS 2003						
Police	\$ 23,684,969	\$ 25,745,977	92.0%	\$ 3,774,967	\$ 2,061,008	-%
Fire	33,430,859	31,576,303	105.9%	(1,854,556)	4,086,288	-%
PSPRS 2002						
Police	23,377,239	22,375,146	104.5%	(1,002,093)	4,415,016	-%
Fire	33,288,928	27,957,056	119.1%	(5,331,872)	3,944,841	-%

VOLUNTEER FIREMEN'S RELIEF AND PENSION FUND

The Volunteer Firemen's Relief and Pension Fund ("Fund") is a single-employer defined benefit pension trust fund administered by the City. A fireman having served as a member of the City's Fire Department prior to 1978, and who is not a paid member of a fire department or a member of the Public Safety Retirement System, is eligible to receive benefits.

The fund does not issue a stand-alone report or is included in any other report than the City's.

A fireman who has served for 25 years or more, or who has reached sixty years of age, and served twenty years or more, shall be paid a monthly pension not to exceed \$250 per month based on the benefits available to members of the fire department as determined by the board of trustees. Such pension may be increased or decreased in amount, or discontinued at the discretion of the Fund's board of trustees. The Fund's funding provisions and all other requirements are established by state statute.

At June 30, 2005, the number of firemen covered by the Fund was classified as follows:

Retirees and beneficiaries currently receiving benefits	3
Active employees:	
Non-vested	<u>3</u>
Total covered firemen	<u>6</u>

Funding Status and Progress:

Per state statute there is no requirement that an actuarial valuation be performed to determine that the Volunteer Firemen's Relief and Pension Fund is fully funded. If the funds provided in the Fund are insufficient to pay fully the pensions authorized pursuant to the statute, the fund shall be prorated among those entitled thereto.

Contributions:

State statute requires a 5% contribution of annual compensation each from the City and the employee. Because no compensation was paid by the City to volunteer firemen, no contribution was made during the current fiscal year. No member or City contributions have been made to this fund since fiscal year ended June 30, 1979.

Trend Information:

Trend information for ten years is presented below:

Fiscal Year June 30	Net Assets Available (not cash) for Benefits	Revenues				Expenses
		Employee Contributions	Employer Contributions	Investment Income	Other Income	Benefit Payments
1996	211,198	-	-	11,390	177	9,601
1997	213,721	-	-	11,922	201	9,600
1998	216,843	-	-	12,332	390	9,600
1999	218,401	-	-	11,068	89	9,600
2000	221,678	-	-	12,877	-	9,600
2001	226,593	-	-	13,620	96	8,800
2002	226,632	-	-	7,125	114	7,200
2003	221,730	-	-	2,176	122	7,200
2004	219,214	-	-	4,367	317	7,200
2005	217,606	-	-	5,296	296	7,200

D. Landfill closure and postclosure care cost

State and federal laws and regulations require the City to place a final cover on its Cinderlake landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The City reports a portion of these closures and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The estimated liability for landfill closure and postclosure care costs has a balance of \$7,608,375 as of June 30, 2005, which is based on 54 percent usage of the landfill. The remaining \$6,461,866 will be accrued over the remaining life of the landfill, which is currently estimated to be 16 years. The accrual for these closure and postclosure care costs for fiscal year 2005 was \$527,821. Based on current estimates for landfill closure and postclosure care costs, the City is setting aside legally restricted funds to insure sufficient funds will be available to meet these requirements. The City makes annual contributions to finance closure and postclosure care costs; at June 30, 2005 the balance of the investments held for those purposes is \$5,504,181. These investments are reported as restricted cash and investments in the City's Environmental Service Fund, and are held by the State of Arizona Local Government Investment Pool.

The estimated total current cost of the landfill closure and postclosure care, \$14,070,241, is based on the amount that would be paid if all equipment, facilities, and services required to care, monitor and maintain the landfill were acquired as of June 30, 2005. However, the actual cost of closure and postclosure care may be higher or lower due to other factors such as; inflation, changes in technology, or changes in landfill laws and regulations.

According to state and federal laws and regulations, the City must comply with the local government financial test requirements that assure the City can meet the cost of landfill closure, post-closure and corrective action when needed. The City, which has pledged its full faith and credit to meet state financial responsibility requirements, is in compliance with these requirements.

In March of 1999, the City purchased 343.9 acres of land from the Forest Service. This land is adjacent to the existing landfill and will be used to open additional cells as needed. As these cells are utilized, additional liabilities for closure and postclosure care requirements will be accrued. The City applied existing policy to the Environmental Services Fund increasing its' expenditures as City residential and commercial collection programs are now charged for landfill fees.

NON-MAJOR FUNDS OTHER GOVERNMENTAL FUNDS

Special Revenue Funds

Special Revenue Funds are used to account for revenues derived from specific taxes or other earmarked revenue sources. They are usually required by statute, charter provision or ordinance to finance particular functions or activities.

Library Fund

The City Library is financed through City sales tax allocations, State and County grants and individual contributions. Funds provided must be used for library activities such as cultural and educational programs and technical services.

Real Estate Proceeds Fund

This fund was established by the City Council by resolution in fiscal year 1985–86 to account for the proceeds received from the sale of excess real estate.

Community Redevelopment

This fund was established in fiscal year 1997 to account for the funding received for the Community Development Block Grant program and affordable housing activities.

Metropolitan Planning Organization

This fund was established in fiscal year 1997 to account for funding derived from the City's status as a Metropolitan Planning Organization.

Debt Service Funds

Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

General Obligation Bond

This fund accounts for the accumulation of resources for and the payments of principal, interest and costs of General Obligation Bonds.

Special Assessment Bond Fund

This fund accounts for the accumulation of resources for and the payment of principal, interest and related costs for all improvement district bonds issued by the City.

Secondary Property Tax Revenue Fund

This fund is used to account for secondary property tax revenues. Monies received by this fund are legally restricted to payment of general obligation debt.

Capital Projects Fund

Capital project funds are used to report major capital acquisition and construction separately from the ongoing operating activities.

Capital Project Bond Construction

This fund accounts for the activity related to the General Bonding Obligations and associated capital construction for capital projects as approved by voters in May 2004.

Permanent Fund

Permanent funds are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs.

Perpetual Care

This fund accounts for the perpetual care of the City's cemetery.

CITY OF FLAGSTAFF, ARIZONA
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2005

	Special Revenue Funds			
	Library Fund	Real Estate Proceeds Fund	Community Redevelopment Fund	Metropolitan Planning Organization Fund
ASSETS				
Cash and cash equivalents	\$ 1,659,213	\$ 2,461,165	\$ 2,070,416	\$ 1,731
Cash with fiscal agents	-	-	-	-
Accounts receivable, net	158,314	863	28	-
Interest receivable	8,738	8,896	10,222	-
Intergovernmental receivables	-	-	167,996	564,305
Special assessments receivable	-	-	-	-
Restricted cash and cash equivalents	-	-	-	-
Total assets	\$ 1,826,265	\$ 2,470,924	\$ 2,248,662	\$ 566,036
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ 58,154	\$ -	\$ 83,705	\$ 32,206
Accrued payroll and compensated absences	76,167	-	-	3,830
Current bonds payable	-	-	-	-
Interest payable	-	-	-	-
Interfund payable	-	-	-	530,000
Deferred revenue	-	-	-	-
Liabilities payable from restricted assets	1,058,177	-	-	-
Total liabilities	1,192,498	-	83,705	566,036
Fund balances:				
Reserved for:				
Debt service	-	-	-	-
Capital projects	-	-	-	-
Perpetual care	-	-	-	-
Unreserved, undesignated, reported in:				
Special revenue funds	633,767	2,470,924	2,164,957	-
Permanent fund	-	-	-	-
Total fund balances	633,767	2,470,924	2,164,957	-
Total liabilities and fund balances	\$ 1,826,265	\$ 2,470,924	\$ 2,248,662	\$ 566,036

Debt Service Funds			Capital Projects	Permanent Fund	Total Other Governmental Funds
General Obligation Bond Fund	Special Assessment Bond Fund	Secondary Property Tax Revenue Fund	Capital Projects Bond Construction	Perpetual Care	
\$ 35,691	\$ 477,768	\$ 1,959,584	\$ 3,346	\$ 27,557	\$ 8,696,471
1,627,146	8,698	-	-	-	1,635,844
-	-	-	-	770	159,975
-	3,883	5,995	-	206	37,940
-	-	-	-	-	732,301
-	33,950	-	-	-	33,950
-	-	-	-	17,765	17,765
<u>\$ 1,662,837</u>	<u>\$ 524,299</u>	<u>\$ 1,965,579</u>	<u>\$ 3,346</u>	<u>\$ 46,298</u>	<u>\$ 11,314,246</u>
\$ -	\$ 1,063	\$ -	\$ 3,351	\$ -	\$ 178,479
-	-	-	-	-	79,997
1,510,000	-	-	-	-	1,510,000
117,146	8,973	-	-	-	126,119
-	-	-	970,000	-	1,500,000
-	33,950	-	-	-	33,950
-	-	-	-	-	1,058,177
<u>1,627,146</u>	<u>43,986</u>	<u>-</u>	<u>973,351</u>	<u>-</u>	<u>4,486,722</u>
35,691	480,313	1,965,579	-	-	2,481,583
-	-	-	(970,005)	-	(970,005)
-	-	-	-	44,872	44,872
-	-	-	-	-	5,269,648
-	-	-	-	1,426	1,426
<u>35,691</u>	<u>480,313</u>	<u>1,965,579</u>	<u>(970,005)</u>	<u>46,298</u>	<u>6,827,524</u>
<u>\$ 1,662,837</u>	<u>\$ 524,299</u>	<u>\$ 1,965,579</u>	<u>\$ 3,346</u>	<u>\$ 46,298</u>	<u>\$ 11,314,246</u>

CITY OF FLAGSTAFF, ARIZONA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds
Year Ended June 30, 2005

	Special Revenue Funds			
	Library Fund	Real Estate Proceeds Fund	Community Redevelopment Fund	Metropolitan Planning Organization Fund
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	2,036,500	-	664,208	-
Grants and entitlements	44,792	-	-	347,238
Charges for services	-	-	275,212	-
Special assessments	-	-	-	-
Investment earnings	39,571	157,541	44,552	-
Contributions	-	-	-	-
Miscellaneous	36,496	-	-	-
Total revenues	<u>2,157,359</u>	<u>157,541</u>	<u>983,972</u>	<u>347,238</u>
EXPENDITURES:				
Current:				
Economic and physical development	-	4,244	1,019,648	362,238
Culture and recreation	3,261,263	-	-	-
Debt service:				
Principal retirement	-	-	-	-
Interest and other charges	-	-	-	-
Capital outlay	262,284	258,481	-	-
Total expenditures	<u>3,523,547</u>	<u>262,725</u>	<u>1,019,648</u>	<u>362,238</u>
Excess (deficiency) of revenues over expenditures	<u>(1,366,188)</u>	<u>(105,184)</u>	<u>(35,676)</u>	<u>(15,000)</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	-	1,669,521	402,054	-
Transfers in	1,174,937	-	375,400	15,000
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>1,174,937</u>	<u>1,669,521</u>	<u>777,454</u>	<u>15,000</u>
Net change in fund balances	<u>(191,251)</u>	<u>1,564,337</u>	<u>741,778</u>	<u>-</u>
Fund balances, beginning of year	<u>825,018</u>	<u>906,587</u>	<u>1,423,179</u>	<u>-</u>
Fund balances, end of year	<u>\$ 633,767</u>	<u>\$ 2,470,924</u>	<u>\$ 2,164,957</u>	<u>\$ -</u>

Debt Service Funds			Capital Projects	Permanent Fund	Total Other Governmental Funds
General Obligation Bond Fund	Special Assessment Bond Fund	Secondary Property Tax Revenue Fund	Capital Project Bond Construction	Perpetual Care	
\$ -	\$ -	\$ 4,856,360	\$ -	\$ -	\$ 4,856,360
-	-	-	-	-	2,700,708
-	-	-	-	-	392,030
-	-	-	-	-	275,212
-	218,500	-	-	-	218,500
-	28,034	25,230	-	836	295,764
-	-	-	-	17,765	17,765
-	797	-	-	23	37,316
-	247,331	4,881,590	-	18,624	8,793,655
-	-	-	-	-	1,386,130
-	-	-	-	-	3,261,263
1,510,000	270,000	-	-	-	1,780,000
252,246	28,999	-	-	-	281,245
-	-	-	970,005	-	1,490,770
1,762,246	298,999	-	970,005	-	8,199,408
(1,762,246)	(51,668)	4,881,590	(970,005)	18,624	594,247
-	-	-	-	-	2,071,575
1,766,908	-	-	-	-	3,332,245
19,299	-	(4,022,820)	-	-	(4,003,521)
1,786,207	-	(4,022,820)	-	-	1,400,299
23,961	(51,668)	858,770	(970,005)	18,624	1,994,546
11,730	531,981	1,106,809	-	27,674	4,832,978
\$ 35,691	\$ 480,313	\$ 1,965,579	\$ (970,005)	\$ 46,298	\$ 6,827,524



Other Supplementary Information

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City of Flagstaff, Arizona
Capital Assets Used in the Operation of Governmental Funds
Schedule By Function and Activity
June 30, 2005

<u>Program</u>	<u>Land</u>	<u>Buildings</u>	<u>Improvements</u>
General government	\$ 3,283,582	\$ 13,052,202	\$ 16,141
Public safety	265,259	12,075,075	61,303
Public works	-	5,924,036	192,887
Economic and physical development	1,292,918	2,790,900	12,983
Culture and recreation	3,476,991	2,631,168	11,375,452
Highway and streets	718,475	102,310	1,909,633
Subtotal	<u>9,037,225</u>	<u>36,575,691</u>	<u>13,568,399</u>
Less: accumulated depreciation	-	(10,775,144)	(6,847,511)
Total governmental funds capital assets	<u>\$ 9,037,225</u>	<u>\$ 25,800,547</u>	<u>\$ 6,720,888</u>

Machinery and Equipment	Infrastructure	Construction In Progress	Total
\$ 3,460,447	\$ -	\$ 2,918	\$ 19,815,290
7,314,825	-	865,951	20,582,413
1,004,337	-	-	7,121,260
879,297	-	-	4,976,098
2,583,972	1,854,273	626,755	22,548,611
6,615,271	22,409,458	29,924,608	61,679,755
21,858,149	24,263,731	31,420,232	136,723,427
(13,639,475)	(1,020,230)	-	(32,282,360)
<u>\$ 8,218,674</u>	<u>\$ 23,243,501</u>	<u>\$ 31,420,232</u>	<u>104,441,067</u>

City of Flagstaff, Arizona
Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes By Function and Activity
June 30, 2005

Program	Balance July 1, 2004	Additions	Retirements	Transfers In (out)	Balance June 30, 2005
General government	\$ 25,639,202	\$ 1,257,358	\$ (1,555,636)	\$ (5,525,634)	\$ 19,815,290
Public safety	19,092,402	1,665,219	(175,208)	-	20,582,413
Public works	7,024,812	108,114	(11,666)	-	7,121,260
Economic and physical development	4,901,238	80,200	(5,340)	-	4,976,098
Culture and recreation	20,154,543	2,707,931	(313,863)	-	22,548,611
Highway and streets	45,936,693	16,286,526	(330,604)	(212,860)	61,679,755
Total	<u>122,748,890</u>	<u>22,105,348</u>	<u>(2,392,317)</u>	<u>(5,738,494)</u>	<u>136,723,427</u>

CITY OF FLAGSTAFF, ARIZONA
Library Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2005

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
REVENUES:				
Intergovernmental	\$ 2,629,762	\$ 2,629,762	\$ 2,036,500	\$ (593,262)
Grants and entitlements	82,300	82,300	44,792	(37,508)
Investment earnings	21,000	21,000	39,571	18,571
Miscellaneous	29,000	29,000	36,496	7,496
Total revenues	<u>2,762,062</u>	<u>2,762,062</u>	<u>2,157,359</u>	<u>(604,703)</u>
EXPENDITURES:				
Current:				
Culture and recreation	3,684,764	3,684,764	3,259,607	425,157
Capital outlay	348,394	348,394	261,673	86,721
Contingency	100,000	100,000	–	100,000
Total expenditures	<u>4,133,158</u>	<u>4,133,158</u>	<u>3,521,280</u>	<u>611,878</u>
Excess (deficiency) of revenues over expenditures	<u>(1,371,096)</u>	<u>(1,371,096)</u>	<u>(1,363,921)</u>	<u>7,175</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	1,174,937	1,174,937	1,174,937	–
Transfers out	(250,000)	(250,000)	–	250,000
Total other financing sources (uses)	<u>924,937</u>	<u>924,937</u>	<u>1,174,937</u>	<u>250,000</u>
Net change in fund balances	<u>(446,159)</u>	<u>(446,159)</u>	<u>(188,984)</u>	<u>257,175</u>
Budgetary fund balances, beginning of year	<u>571,968</u>	<u>571,968</u>	<u>571,968</u>	<u>–</u>
Budgetary fund balances, end of year	<u>\$ 125,809</u>	<u>\$ 125,809</u>	<u>\$ 382,984</u>	<u>\$ 257,175</u>
Adjustment from budetary basis to GAAP basis net change in fund balances			\$ (188,984)	
The City budgets for certain other expenditures on the cash basis, rather than on the modified accrual basis			(2,267)	
Adjusted net change in fund balance – GAAP basis			<u>\$ (191,251)</u>	

CITY OF FLAGSTAFF, ARIZONA
Real Estate Proceeds Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2005

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
REVENUES:				
Investment earnings	\$ 26,350	\$ 26,350	\$ 157,541	\$ 131,191
Total revenues	26,350	26,350	157,541	131,191
EXPENDITURES:				
Capital outlay	675,900	675,900	262,725	413,175
Total expenditures	675,900	675,900	262,725	413,175
Excess (deficiency) of revenues over expenditures	(649,550)	(649,550)	(105,184)	544,366
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	-	-	1,669,521	1,669,521
Total other financing sources (uses)	-	-	1,669,521	1,669,521
Net change in fund balances	(649,550)	(649,550)	1,564,337	2,213,887
Budgetary fund balances, beginning of year	905,994	905,994	905,994	-
Budgetary fund balances, end of year	\$ 256,444	\$ 256,444	\$ 2,470,331	\$ 2,213,887

CITY OF FLAGSTAFF, ARIZONA
Community Redevelopment Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2005

	<u>Budget</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental	\$ 2,192,837	\$ 2,192,837	\$ 664,208	\$ (1,528,629)
Charges for services	-	-	275,212	275,212
Investment earnings	-	-	44,552	44,552
Total revenues	<u>2,192,837</u>	<u>2,192,837</u>	<u>983,972</u>	<u>(1,208,865)</u>
EXPENDITURES:				
Current:				
Economic and physical development	<u>4,317,814</u>	<u>4,317,814</u>	<u>1,019,648</u>	<u>3,298,166</u>
Total expenditures	<u>4,317,814</u>	<u>4,317,814</u>	<u>1,019,648</u>	<u>3,298,166</u>
Excess (deficiency) of revenues over expenditures	<u>(2,124,977)</u>	<u>(2,124,977)</u>	<u>(35,676)</u>	<u>2,089,301</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	402,054	402,054	402,054	-
Transfers in	<u>375,400</u>	<u>375,400</u>	<u>375,400</u>	<u>-</u>
Total other financing sources (uses)	<u>777,454</u>	<u>777,454</u>	<u>777,454</u>	<u>-</u>
Net change in fund balances	<u>(1,347,523)</u>	<u>(1,347,523)</u>	<u>741,778</u>	<u>2,089,301</u>
Budgetary fund balances, beginning of year	<u>1,388,527</u>	<u>1,388,527</u>	<u>1,388,527</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 41,004</u>	<u>\$ 41,004</u>	<u>\$ 2,130,305</u>	<u>\$ 2,089,301</u>

CITY OF FLAGSTAFF, ARIZONA
Metropolitan Planning Organization Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2005

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
REVENUES:				
Grants and entitlements	\$ 711,700	\$ 711,700	\$ 347,238	\$ (364,462)
Total revenues	711,700	711,700	347,238	(364,462)
EXPENDITURES:				
Current:				
Economic and physical development	526,700	526,700	362,403	164,297
Contingency	200,000	200,000	-	200,000
Total expenditures	726,700	726,700	362,403	364,297
Excess (deficiency) of revenues over expenditures	(15,000)	(15,000)	(15,165)	(165)
OTHER FINANCING SOURCES (USES):				
Transfers in	15,000	15,000	15,000	-
Total other financing sources (uses)	15,000	15,000	15,000	-
Net change in fund balances	-	-	(165)	(165)
Budgetary fund balances, beginning of year	-	-	-	-
Budgetary fund balances, end of year	\$ -	\$ -	\$ (165)	\$ (165)
Adjustment from budetary basis to GAAP basis net change in fund balances			\$ (165)	
The City budgets for certain other expenditures on the cash basis, rather than on the modified accrual basis			165	
Adjusted net change in fund balance – GAAP basis			\$ -	

CITY OF FLAGSTAFF, ARIZONA
General Obligation Bond Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2005

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
REVENUES:				
Investment earnings	\$ 300	\$ 300	\$ –	\$ (300)
Total revenues	<u>300</u>	<u>300</u>	<u>–</u>	<u>(300)</u>
EXPENDITURES:				
Current:				
Debt service:				
Principal retirement	1,510,000	1,510,000	1,510,000	–
Interest and other charges	<u>257,046</u>	<u>257,046</u>	<u>252,246</u>	<u>4,800</u>
Total expenditures	<u>1,767,046</u>	<u>1,767,046</u>	<u>1,762,246</u>	<u>4,800</u>
Excess (deficiency) of revenues over expenditures	<u>(1,766,746)</u>	<u>(1,766,746)</u>	<u>(1,762,246)</u>	<u>4,500</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	1,767,046	1,767,046	1,766,908	(138)
Transfers out	<u>–</u>	<u>–</u>	<u>19,299</u>	<u>19,299</u>
Total other financing sources (uses)	<u>1,767,046</u>	<u>1,767,046</u>	<u>1,786,207</u>	<u>19,161</u>
Net change in fund balances	<u>300</u>	<u>300</u>	<u>23,961</u>	<u>23,661</u>
Budgetary fund balances, beginning of year	<u>11,823</u>	<u>11,823</u>	<u>11,823</u>	<u>–</u>
Budgetary fund balances, end of year	<u>\$ 12,123</u>	<u>\$ 12,123</u>	<u>\$ 35,784</u>	<u>\$ 23,661</u>

CITY OF FLAGSTAFF, ARIZONA
Special Assessment Bond Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2005

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts Budgetary Basis	
REVENUES:				
Special assessments	\$ 212,885	\$ 212,885	\$ 218,500	\$ 5,615
Investment earnings	22,543	22,543	28,034	5,491
Miscellaneous	–	–	797	797
Total revenues	<u>235,428</u>	<u>235,428</u>	<u>247,331</u>	<u>11,903</u>
EXPENDITURES:				
Current:				
Debt service:				
Principal retirement	270,400	270,400	270,000	400
Interest and other charges	<u>28,998</u>	<u>28,998</u>	<u>28,999</u>	<u>(1)</u>
Total expenditures	<u>299,398</u>	<u>299,398</u>	<u>298,999</u>	<u>399</u>
Excess (deficiency) of revenues over expenditures	<u>(63,970)</u>	<u>(63,970)</u>	<u>(51,668)</u>	<u>12,302</u>
Budgetary fund balances, beginning of year	<u>434,396</u>	<u>434,396</u>	<u>434,396</u>	<u>–</u>
Budgetary fund balances, end of year	<u>\$ 370,426</u>	<u>\$ 370,426</u>	<u>\$ 382,728</u>	<u>\$ 12,302</u>

CITY OF FLAGSTAFF, ARIZONA
Secondary Property Tax Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2005

	<u>Budget</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Taxes	\$ 4,686,697	\$ 4,686,697	\$ 4,856,360	\$ 169,663
Investment earnings	<u>20,500</u>	<u>20,500</u>	<u>25,230</u>	<u>4,730</u>
Total revenues	<u>4,707,197</u>	<u>4,707,197</u>	<u>4,881,590</u>	<u>174,393</u>
 OTHER FINANCING SOURCES (USES):				
Transfers out	<u>(4,022,820)</u>	<u>(4,022,820)</u>	<u>(4,022,820)</u>	<u>-</u>
Total other financing sources (uses)	<u>(4,022,820)</u>	<u>(4,022,820)</u>	<u>(4,022,820)</u>	<u>-</u>
 Net change in fund balances	<u>684,377</u>	<u>684,377</u>	<u>858,770</u>	<u>174,393</u>
 Budgetary fund balances, beginning of year	<u>1,023,685</u>	<u>1,023,685</u>	<u>1,023,685</u>	<u>-</u>
 Budgetary fund balances, end of year	<u>\$ 1,708,062</u>	<u>\$ 1,708,062</u>	<u>\$ 1,882,455</u>	<u>\$ 174,393</u>

CITY OF FLAGSTAFF, ARIZONA
Capital Projects Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2005

	<u>Budget</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts Budgetary Basis</u>	
EXPENDITURES:				
Current:				
Capital outlay	\$ 3,797,539	\$ 3,797,539	\$ 970,005	\$ 2,827,534
Total expenditures	<u>3,797,539</u>	<u>3,797,539</u>	<u>970,005</u>	<u>2,827,534</u>
Excess (deficiency) of revenues over expenditures	<u>(3,797,539)</u>	<u>(3,797,539)</u>	<u>(970,005)</u>	<u>2,827,534</u>
OTHER FINANCING SOURCES (USES):				
Bonds issued	<u>3,797,539</u>	<u>3,797,539</u>	<u>-</u>	<u>(3,797,539)</u>
Total other financing sources (uses)	<u>3,797,539</u>	<u>3,797,539</u>	<u>-</u>	<u>(3,797,539)</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>(970,005)</u>	<u>(970,005)</u>
Budgetary fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (970,005)</u>	<u>\$ (970,005)</u>

Statistical Section

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Table I
City of Flagstaff, Arizona
Government-Wide Expenses by Function
Last Ten Fiscal Years

Fiscal Year	General Government	Public Safety	Public Works	Economic and Physical Development	Culture and Recreation	Highways and Streets	Interest on Long Tem Debt	Water and Wastewater	Environmental Services	Airport	Storwmater	Total
2003	\$ 4,840,896	\$ 18,270,468	\$ 1,169,302	\$ 7,272,115	\$ 8,467,575	\$ 6,184,553	\$ 1,380,182	\$ 16,142,040	\$ 7,556,614	\$ 3,411,603	\$ -	\$ 74,695,348
2004	5,891,617	18,792,832	1,178,137	6,473,290	8,693,714	8,886,947	1,923,325	17,250,441	7,319,602	3,370,447	460,936	80,241,288
2005	5,441,945	21,018,114	1,320,459	6,807,311	9,426,600	10,011,231	2,042,555	17,297,017	8,548,715	3,749,669	479,700	86,143,316

The City implemented GASB 34 for the fiscal year ended June 30, 2003.
Prior statements have not been restated to comply with the new requirements.
These amounts are presented on the accrual basis of accounting.

Table II
City of Flagstaff, Arizona
Government-Wide Revenues
Last Ten Fiscal Years

Fiscal Year	Program Revenues			General Revenues					
	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Property Tax	Sales Tax	State Shared Tax	Investment Earnings	Miscellaneous	Total
2003	\$ 32,550,332	\$ 3,810,679	\$ 19,106,918	\$ 8,010,293	\$ 23,805,566	\$ 12,073,108	\$ 489,844	\$ 975,983	\$ 100,822,723
2004	31,796,700	2,965,572	22,240,321	7,931,626	25,682,974	12,122,563	810,739	2,509,690	106,060,185
2005	33,791,988	4,721,905	23,345,176	8,462,302	27,054,164	12,837,838	2,639,834	1,191,862	114,045,069

The City implemented GASB 34 for the fiscal year ended June 30, 2003.
Prior statements have not been restated to comply with the new requirements.
These amounts are presented on the accrual basis of accounting.

Table III
City of Flagstaff, Arizona
General Government Expenditures by Function
Last Ten Fiscal Years

Fiscal Year	General Government	Public Safety	Public Works Development	Economic and Physical Development	Culture and Recreation	Highway and Streets	Debt Service	Capital	Total
2003	\$ 4,453,180	\$ 17,202,980	\$ 948,944	\$ 7,060,275	\$ 7,599,703	\$ 5,676,050	\$ 5,059,182	\$ 18,304,161	\$ 66,304,475
2004	5,335,890	18,015,837	966,546	6,289,966	7,724,481	8,003,110	7,042,026	19,348,708	72,726,564
2005	6,158,308	19,140,415	1,005,745	6,424,057	8,341,105	8,951,097	7,028,734	17,053,841	74,103,302

Includes all governmental fund types.

The City implemented GASB 34 for the fiscal year ended June 30, 2003.

Prior statements have not been restated to comply with the new requirements.

These amounts are presented on the modified accrual basis of accounting.

Table IV
City of Flagstaff, Arizona
General Government Revenues by Source
Last Ten Fiscal Years

Fiscal Year	Taxes	Licenses and Permits	Intergovernmental Revenues	Charges for Services	Fines and Forfeits	Other Revenues	Total
1996	\$ 18,112,121	\$ 1,322,309	\$ 16,095,776	\$ 872,608	\$ 808,543	\$ 1,581,552	\$ 38,792,909
1997	18,776,929	1,279,410	17,704,496	871,284	782,451	2,333,295	41,747,865
1998	19,576,193	1,246,090	19,079,704	920,566	783,854	2,497,159	44,103,566
1999	20,582,542	1,335,184	22,621,143	837,373	838,306	2,468,401	48,682,949
2000	22,197,133	1,324,340	26,778,117	1,030,249	837,695	5,243,779	57,411,313
2001	28,340,957	1,318,450	26,203,650	1,025,625	993,585	3,570,180	61,452,447
2002	30,986,091	2,014,357	24,008,885	1,676,615	991,131	3,520,493	63,197,572
2003	31,523,875	2,378,728	24,820,870	1,729,275	1,303,069	2,595,804	64,351,621
2004	33,736,154	2,111,033	23,097,385	1,459,837	1,144,562	2,320,658	63,869,629
2005	35,529,373	2,063,718	27,109,796	1,834,067	1,250,494	3,328,001	71,115,449

Includes all governmental fund types.

Table V
City of Flagstaff
Tax Revenues by Source
Last Ten Fiscal Years

Fiscal Year	General Property Tax	Secondary Property Tax	Franchise and Other Taxes	City Sales Tax	Bed, Board and Booze Tax	Transportation Tax	Total
1996	\$ 2,137,125	\$ 3,344,441	\$ 1,260,317	\$ 8,240,709	\$ 3,129,529	\$ -	\$ 18,112,121
1997	2,243,818	3,402,803	1,358,283	8,491,913	3,280,112	-	18,776,929
1998	2,405,865	3,355,628	1,512,456	8,966,287	3,335,957	-	19,576,193
1999	2,577,557	3,537,987	1,560,789	9,369,406	3,536,803	-	20,582,542
2000	2,759,130	3,777,091	1,505,710	10,510,380	3,644,822	-	22,197,133
2001	2,853,091	3,896,103	1,690,043	10,810,658	3,747,822	5,343,240	28,340,957
2002	3,070,491	4,197,777	1,790,846	11,782,781	3,817,028	6,327,168	30,986,091
2003	3,427,509	4,415,081	1,783,098	11,468,608	3,826,975	6,602,604	31,523,875
2004	3,424,657	4,628,523	2,262,292	12,054,718	4,063,049	7,302,915	33,736,154
2005	3,618,849	4,856,360	1,943,498	13,148,095	4,331,014	7,631,557	35,529,373

Table VI
City of Flagstaff, Arizona
Property Tax Levies and Collections
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections</u>	<u>Percent of Levy Collected</u>	<u>Delinquent Tax Collections</u>	<u>Total Tax Collections</u>	<u>Total Collections as a Percent of Current Levy</u>	<u>Outstanding Delinquent Collections</u>	<u>Outstanding Delinquent Taxes as a Percent of Current Levy</u>
1996	\$ 5,424,449	\$ 5,400,777	99.6%	\$ 80,789	\$ 5,481,566	101.1%	\$ 265,339	4.9%
1997	5,638,222	5,566,676	98.7%	79,945	5,646,621	100.1%	248,572	4.4%
1998	5,754,253	5,651,170	98.2%	110,323	5,761,493	100.1%	217,244	3.8%
1999	6,138,071	6,036,950	98.4%	78,594	6,115,544	99.6%	216,717	3.5%
2000	6,526,010	6,443,879	98.7%	92,342	6,536,221	100.2%	211,305	3.2%
2001	6,936,955	6,658,250	96.0%	90,944	6,749,194	97.3%	218,230	3.1%
2002	7,271,109	7,194,162	98.9%	74,106	7,268,268	100.0%	257,060	3.5%
2003	7,613,349	7,625,852	100.2%	92,457	7,718,309	101.0%	292,203	3.8%
2004	7,897,298	7,791,735	98.7%	261,445	8,053,180	102.0%	170,430	2.2%
2005	8,494,694	8,330,157	98.1%	145,051	8,475,208	100.0%	157,523	1.9%

Table VII
City of Flagstaff, Arizona
Primary Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year	Real Property		Personal Property		Total		Ratio of Total Assessed Value to Total Estimated Actual Value
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
1996	\$ 285,152,896	\$ 2,097,918,383	\$ 20,719,183	\$ 82,906,354	\$ 305,872,079	\$ 2,180,824,737	1 - 7.1
1997	317,127,846	2,352,739,798	12,461,600	103,490,735	329,589,446	2,456,230,533	1 - 7.5
1998	329,932,001	2,458,882,909	22,781,372	97,754,981	352,713,373	2,556,637,890	1 - 7.2
1999	353,421,490	2,642,062,329	22,180,026	98,903,475	375,601,516	2,740,965,804	1 - 7.3
2000	379,547,012	2,802,287,566	30,717,569	137,001,286	410,264,581	2,939,288,852	1 - 7.2
2001	400,324,857	2,834,495,586	52,116,286	234,449,089	452,441,143	3,068,944,675	1 - 6.8
2002	427,130,788	3,023,897,189	53,042,977	238,857,013	480,173,765	3,262,754,202	1 - 6.8
2003	444,529,682	3,188,608,091	54,874,705	249,515,175	499,404,387	3,438,123,266	1 - 6.9
2004	483,209,070	3,496,252,851	50,207,599	225,502,713	533,416,669	3,721,755,564	1 - 7.0
2005	533,298,275	3,903,517,662	49,674,987	223,662,761	582,973,262	4,127,180,423	1 - 7.1

Table VIII
City of Flagstaff, Arizona
Property Tax Rates
Direct and Overlapping Governments
Last Ten Fiscal Years

Fiscal Year	City	School District	Community College	County	State	Total
1996	1.7983	6.7903	0.3728	1.1472	0.4700	10.5786
1997	1.8283	6.5237	0.3784	1.1386	–	9.8690
1998	1.7127	6.6634	0.3869	1.1168	–	9.8798
1999	1.7127	6.5477	0.3952	1.1094	–	9.7650
2000	1.7127	6.5585	0.5947	1.1444	–	10.0103
2001	1.7127	6.6885	0.5724	1.1336	–	10.1072
2002	1.7127	6.6741	0.5717	1.0951	–	10.0536
2003	1.7127	6.7590	0.5809	1.1941	–	10.2467
2004	1.7127	6.3679	0.5775	1.2369	–	9.8950
2005	1.7127	5.7236	0.5660	1.2212	–	9.2235

Note: Tax rates are per \$100 assessed valuation.

Table IX
City of Flagstaff, Arizona
Principal Taxpayers
Tax Year 2005

Taxpayer	Type of Business	Net Assessed Valuation	As a Percentage of the City Total Secondary Assessed Valuation
Arizona Public Service Company	Utility	\$ 11,202,424	2.01%
W L Gore & Associates Inc.	Manufacturer	10,109,600	1.82%
Qwest Corporation	Utility	9,580,227	1.72%
Nestle Purina Petcare Company	Manufacturer	4,171,498	0.75%
Walgreen Arizona Drug Co.	Distribution/Retail	3,867,713	0.69%
Little America Refining Co.	Hotel/Tourism	3,830,418	0.69%
Cone Company George & Thomas DBA	Manufacturing	3,317,484	0.60%
Flagstaff Mall Associated Ltd. Partnership	Shopping Center	3,250,000	0.58%
UniSource Energy Corporation	Utility	2,538,753	0.46%
Woodlands Plaza Hotel LTD Partnership	Hotel/Tourism	2,403,225	0.43%
Total Principal Taxpayers		54,271,342	9.75%
Other Taxpayers		502,409,245	90.25%
Total Secondary Assessed Valuation		\$ 556,680,587	100.00%

Source: Arizona Department of Revenue, Central Information Services

Table X
City of Flagstaff, Arizona
Special Assessment Collections
Last Ten Fiscal Years

Fiscal Year	Current Assessments Due	Current Assessments Collected (1)	Ratio of Collections to Amounts Due	Total Outstanding Current and Delinquent Assessments (2)
1996	\$ 53,958	\$ 53,958	100.00%	\$ 3,408
1997	127,535	132,847	104.17%	1,058
1998	136,791	170,026	124.30%	-
1999	137,661	157,640	114.51%	-
2000	145,142	175,863	121.17%	529
2001	186,494	269,794	144.67%	5,379
2002	207,154	350,894	169.39%	5,923
2003	206,129	360,158	174.72%	-
2004	203,214	291,684	143.54%	414
2005	212,885	218,500	102.64%	215

(1) Includes prepayments.

(2) Includes principal and interest.

Table XI
City of Flagstaff, Arizona
Computation of Legal Debt Margin
June 30, 2005

Secondary Assessed Value (1)		<u>\$ 556,680,587</u>
<u>Special Improvement Legal Debt Margin</u>		
Debt Limit 20 Percent of Assessed Value – Special Improvements		\$ 111,336,117
Amount of Debt Applicable to Debt Limit		
Total Bonded Debt	\$ 30,919,504	
Less:		
Current Portion	2,570,000	
Other Deductions Allowed by Law:		
Water Revenue Bonds	6,290,440	
Special Assessment Bonds	415,000	
Total Amount of Debt Applicable to Debt Limit	<u>21,644,064</u>	
Legal Debt Margin Available for Water, Sewer, Light, Parks and Open Space Projects		<u>\$ 89,692,053</u>
<u>General Legal Debt Margin</u>		
Debt Limit 6 Percent of Assessed Value – General		\$ 33,400,835
Amount of Debt Applicable to Debt Limit		
Total Bonded Debt	\$ 44,120,000	
Less:		
Current Portion	1,345,000	
Other Deductions Allowed by Law:		
Other Debt	28,170,000	
Highway User Revenue Bonds	13,380,000	
Total Amount of Debt Applicable to Debt Limit	<u>1,225,000</u>	
Legal Debt Margin – Available for All Other Projects		<u>\$ 32,175,835</u>

(1) Abstract published by the Arizona State Department of Revenue.

Table XII
City of Flagstaff, Arizona
Percent of Net General Bonded Debt to Secondary Assessed Value
and Net General Bonded Debt Per Capita
Last Ten Fiscal Years

Fiscal Year	Population (1)	Secondary Assessed Value (2)	Gross Bonded Debt	Less Current Portion	Net Bonded Debt	Percent of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
1996	53,966	294,100,721	39,830,151	3,595,000	36,235,151	12%	671.44
1997	55,885	310,066,911	53,809,898	4,371,000	49,438,898	16%	884.65
1998	58,145	340,743,258	49,470,273	4,170,000	45,300,273	13%	779.09
1999	59,945	362,625,557	45,333,746	4,465,000	40,868,746	11%	681.77
2000	52,894 **	385,566,202	40,904,461	4,405,000	36,499,461	9%	690.05
2001	57,700	408,592,733	36,537,570	2,805,000	33,732,570	8%	584.62
2002	59,160	429,030,400	36,873,231	2,888,505	33,984,726	8%	574.45
2003	61,030	464,257,886	34,012,849	3,570,000	30,442,849	7%	498.82
2004	61,270	501,655,440	30,967,902	3,920,000	27,047,902	5%	441.45
2005	61,145	556,680,587	26,784,064	3,915,000	22,869,064	4%	374.01

(1) Arizona Department of Economic Security projected population increases except 1995 and 2000, which are official census figures.

(2) From County Assessors Office.

* 1995 Special Census.

** Census estimates exceeded actual 2000 census results.
FY2000 adjusted to reflect population per U.S. Census official results

Table XIII
City of Flagstaff, Arizona
Ratio of Annual Debt Service Expenditures for
General Bonded Debt to Total General Governmental Expenditures
Last Ten Fiscal Years

Fiscal Year	Principal	Interest and Other Charges	Total Debt Service	Total General Expenditures	Ratio of Debt Service to General Expenditures (Percent)
1996	\$ 3,595,000	\$ 2,612,598	\$ 6,207,598	\$ 35,742,952	17.37%
1997	4,371,000	2,660,912	7,031,912	38,110,976	18.45%
1998	4,170,000	2,826,759	6,996,759	43,610,081	16.04%
1999	4,465,000	2,516,329	6,981,329	45,156,409	15.46%
2000	4,405,000	2,242,254	6,647,254	54,107,289	12.29%
2001	2,805,000	1,953,098	4,758,098	52,523,698	9.06%
2002	2,979,000	1,443,074	4,422,074	68,918,699	6.42%
2003	3,679,000	1,373,322	5,052,322	66,304,475	7.62%
2004	4,614,000	2,428,026	7,042,026	72,726,564	9.68%
2005	4,880,000	2,148,734	7,028,734	74,103,302	9.49%

Table XIV
City of Flagstaff, Arizona
Computation of Direct and Overlapping Debt
June 30, 2005

The general obligation debt of all local governmental units which provide services within the City's boundaries, and which must be borne by properties in the City (commonly called overlapping debt), is summarized below:

<u>Governmental Units</u>	<u>Net Debt Outstanding</u>	<u>Percentage Applicable to the City</u>	<u>Direct and Overlapping Debt</u>
City of Flagstaff	\$ 23,165,018	100.0%	\$ 23,165,018
School District #1	31,770,000	65.0%	20,650,500
			<u>\$ 43,815,518</u>

Table XV
City of Flagstaff, Arizona
Schedule of Water and Wastewater Revenue Bond Coverage
Last Ten Fiscal Years

Fiscal Year	Gross Revenues	Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1996	\$ 16,475,146	\$ 7,136,236	\$ 9,338,910	\$ -	\$ -	\$ -	\$ -
1997	16,515,478	7,973,540	8,541,938	-	-	-	-
1998	16,767,650	7,916,657	8,850,993	-	-	-	-
1999	16,773,884	7,700,535	9,073,349	-	-	-	-
2000	17,606,349	8,311,186	9,295,163	-	-	-	-
2001	18,337,310	9,757,448	8,579,862	-	-	-	-
2002	17,637,708	9,587,743	8,049,965	-	-	-	-
2003	16,769,463	9,865,571	6,903,892	238,431	17,741	256,172	26.95
2004	17,227,848	10,645,073	6,582,775	246,890	231,034	477,924	13.77
2005	16,851,956	10,693,901	6,158,055	255,648	223,153	478,801	12.86

Table XVI
City of Flagstaff, Arizona
Demographic Statistics
Last Ten Fiscal Years

Fiscal Year	Population (1)	School Enrollment (2)	Unemployment Rate (3)
1996	53,966	11,826	6.1%
1997	55,885	12,679	6.5%
1998	58,145	13,249	6.6%
1999	59,945	12,880	6.6%
2000	52,894	12,682	5.2%
2001	57,700	13,969	4.8%
2002	59,160	13,566	5.1%
2003	61,030	12,905	5.8%
2004	61,270	13,176	5.2%
2005	62,371	13,389	5.1%

(1) Arizona Department of Economic Security estimated projected population except for the years, 2000, which are official census figures, and 1995, which represent the special census figures.

(2) Arizona Department of Education and National Center for Education Statistics.

(3) Arizona Department of Economic Security.
 (2005 is a draft estimate provided by AZ DES)

Note: Annual per capita income, median age, and education level data are not available.

Table XVII
City of Flagstaff, Arizona
Property Value, Construction, and Bank Deposits
Last Ten Fiscal Years

Fiscal Year	Residential Construction (1)		Commercial and Industrial Construction (1)		Quarterly Bank Deposits Coconino County (\$000) (2)	Property Value (3)			
	Number of Permits	Value	Number of Permits	Value		Estimated Cash Value	Commercial	Residential	Nontaxable
1996	564	\$ 68,880,721	169	\$ 24,418,924	\$ 462,848	\$ 2,170,269,429	\$ 818,081,181	\$ 1,205,903,371	\$ 146,284,877
1997	513	58,580,988	198	39,495,278	347,956 *	2,219,561,893	832,894,205	1,238,946,076	147,721,612
1998	528	45,783,140	182	33,570,116	482,770	2,458,001,305	849,315,340	1,446,181,407	162,504,558
1999	524	78,015,349	183	35,999,041	458,285	2,644,019,764	867,782,208	1,609,395,170	166,842,386
2000	586	46,399,420	122	43,592,693	460,217	2,813,033,675	930,939,338	1,698,835,707	183,258,630
2001	550	50,615,526	127	35,722,301	490,905	2,991,862,619	992,147,419	1,795,884,090	203,831,110
2002	758	69,026,395	152	43,642,285	615,806	3,134,105,000	1,037,581,165	1,886,615,936	209,907,899
2003	740	67,267,554	170	38,865,819	881,222	3,329,380,591	1,072,502,563	1,997,820,625	259,057,403
2004	709	87,188,212	139	20,152,607	788,255	3,485,996,311	1,096,247,804	2,123,907,477	265,841,030
2005	542	73,977,264	114	28,740,783	827,075	3,814,830,953	1,153,090,756	2,376,018,882	285,721,315

(1) City Building Department.

(2) Arizona Bankers Association.

This represents deposits in the 2nd quarter of the fiscal year for banks which reported.

(3) Abstract published by the Arizona State Department of Revenue.

* Number is exclusive of one large non-participating financial institute in Coconino County.

Table XVIII

**City of Flagstaff, Arizona
Miscellaneous Statistics**

Date of Incorporation		Employees as of June 30, 2005		Parks and Recreation	
May 26, 1894		Merit System	545	Number of Developed Parks	27
Date Charter Adopted		Exempt	134	Number of Un-developed Parks	4
October 3, 1958		Temporary	214	Park Acreage	702.34
Date of Latest Charter Amendment		Elected Officials	7	Flagstaff Urban Trail System-Miles	33.83
June 29, 1998					
		Total Payroll-Fiscal Year 2005:	\$ 33,653,013	Number of Other Facilities:	
Form of Government				Recreation Centers	3
Council, City Manager				Tennis Courts	17
		Elections		Racquetball Courts	4
Area - Square Miles		Last Municipal Election-May 2004		Ramadas	11
2005	64.66	Number of Registered Voters	29,068	Softball/Baseball Fields	17
		Number of Votes Cast	11,650	Ice Rink/Activity Center	1
Miles of Streets, Alleys and Sidewalks		Percentage of Registered Voters	40.08%	Playgrounds	20
Streets	219.08	Last Special Election-May 2005		Skate Tracks	2
Alleys	10.15	Number of Registered Voters	28,704	Soccer Fields	4
Sidewalks	157.22	Number of Votes Cast	17,182	Disc Golf Course	2
		Percentage of Registered Voters	59.86%	Basketball Courts	19
Miles of Sewer				Volleyball Courts	6
Storm	42.81			Horseshoe Courts	12
Sanitary	250.55	Pulliam Airport		Off Leash Areas-Bark Parks	2
		Fixed Base Operators	1	Swimming Pools (School Owned)	2
Number of Street Lights	3,037	Locally Based Aircraft	130		
		Tiedowns	18		
Number of Fire Hydrants	2,598	Enclosed Hangars	61		
		Open Hangars	48		
Number of Manholes	6,496				

Table XVIII (continued)

City of Flagstaff, Arizona
Miscellaneous Statistics

Education		Sales Tax		Population	
Number of Schools:		Retail Sales Last 10 Fiscal Years:		Census Population Count--Last Five Censuses:	
Public Elementary	9	2005	\$ 1,749,149,518	2005***	62,371
Public Middle School	3	2004	1,593,931,781	2004**	61,270
Public High School	3	2003	1,458,775,346	2003**	61,030
Alternative Schools	2	2002	1,404,232,492	2002**	59,160
Magnet Schools	5	2001	1,324,735,136	2001**	57,700
Charter Schools	10	2000	1,238,195,104	2000	52,894
Private Schools	6	1999	1,117,197,604	1995*	52,701
Community College (Coconino)	1	1998	1,065,133,746	1990	45,854
University (Northern Arizona)	1	1997	1,016,570,260	1985*	38,247
		1996	965,100,588	1980	34,743
Number of Students (Fall 2004):		Total Sales Tax Revenue for Fiscal Year 2005		*Special Census	
Flagstaff Unified School District	11,547		\$ 12,671,202	**DES Estimate	
Charter	1,527	Utility Enterprise		***Preliminary DES Estimate	
Private (Fall 2001)	315	Total Active Accounts on June 30, 2005		2000 Census Information:	
Northern Arizona University		Water		Age Distribution of Population	
Flagstaff Campus	12,980	Average Gallons/Household/Month		for Urbanized Areas Only	
All Locations	19,147	Plants Capacity (Million Gallons per Day):		1-4 Years	3,546
Coconino Community College		Water Treatment Plant		5-17 Years	9,288
Flagstaff Campuses (2)	3,540	Reservoir Filtration Plant		18-24 Years	11,487
All Locations	4,380	Wildcat Hill Plant		25-44 Years	16,111
		Rio de Flag Reclaim Plant		45-64 Years	8,309
Fire Protection		Wells		65+ Years	4,153
Number of Stations	6	Reservoirs			52,894
Number of Employees (FTE)	97.75	Reclaimed Reservoirs		Number of Housing Units	
		Miles of Water Lines		Average Persons per Housing Unit	
Police Protection		Miles of Reclaimed Lines		Average Family Size	
Number of Employees (FTE)	160	Miles of Sewer Lines		Median Household Income	
Number of Calls for Service per				Per Capita Income (2000)	
Annual Report-12/31/04	55,464				
Ave. Patrol Officers for 24 hour period	20				
Vehicular Patrol Units	26				
Coconino County Jail Prisoner Capacity	562				

2000 Census information available at the following websites:
<http://www.census.gov/census2000/states/az.html>
<http://www.de.state.az.us/links/economic/webpage/index.html>

Table XIX
City of Flagstaff, Arizona
Intergovernmental Revenue by Source
Governmental Funds
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>State Sales Tax</u>	<u>State Income Tax</u>	<u>County Auto In-Lieu Tax</u>	<u>Highway User Tax</u>	<u>Local Transportation Assistance</u>	<u>State HB 2565</u>	<u>Federal Grants</u>	<u>State Grants & Other State</u>	<u>County LEAF IGA</u>	<u>County Library District Funding</u>	<u>Other</u>	<u>Total</u>
1996	\$ 3,734,332	\$ 3,553,021	\$ 1,355,828	\$ 5,700,737	\$ 364,931	\$ –	\$ 360,439	\$ 115,134	\$ –	\$ 911,354	\$ –	\$ 16,095,776
1997	3,845,330	4,170,641	1,504,060	5,852,957	366,453	–	694,916	380,042	–	890,097	–	17,704,496
1998	4,061,346	4,725,837	1,533,501	5,371,446	394,318	–	1,448,951	553,963	–	955,342	35,000	19,079,704
1999	4,353,556	5,489,912	1,847,142	7,207,158	367,911	–	1,763,054	272,297	–	1,101,729	218,384	22,621,143
2000	4,785,424	6,062,290	1,902,188	7,427,210	367,461	312,249	1,474,751	370,391	–	1,068,817	3,007,336	26,778,117
2001	4,919,575	6,432,879	1,913,662	7,969,703	360,806	142,793	1,731,823	317,059	–	1,835,109	580,241	26,203,650
2002	4,076,034	5,526,159	1,803,900	7,771,416	300,246	47,598	2,348,793	437,543	–	1,423,105	274,091	24,008,885
2003	4,136,724	5,557,918	2,378,466	7,408,116	315,026	–	1,743,613	823,701	–	1,607,306	850,000	24,820,870
2004	4,449,982	4,777,145	2,427,367	6,975,351	313,868	–	1,160,966	454,212	468,069	1,921,433	148,992	23,097,385
2005	4,900,117	4,918,476	2,461,425	7,171,383	313,843	–	1,772,181	2,868,033	628,198	2,036,500	39,640	27,109,796

Table XX
City of Flagstaff, Arizona
Insurance Summary
In Effect June 1, 2005 to May 31, 2006

Coverage	Limit of Liability	Coverage	Limit of Liability
Liability Insurance:		Property Insurance:	
General Liability*	\$ 1,000,000 / per occurrence	Blanket Building and Contents, including light and signals	\$ 101,070,441 / \$25,000 deductible
(Includes 2 Skateboard Parks)	\$ 2,000,000 / aggregate	Flood Zones B and C	\$ 10,000,000 / \$25,000 deductible
Law Enforcement Liability*	\$ 1,000,000 / each wrongful act	Earthquakes	\$ 15,000,000 / \$25,000 deductible
Auto Liability*	\$ 1,000,000 / aggregate	Business Income/Estra Expense	\$ 7,000,000 / 24 hours
Public Entry Management Errors and Omissions*	\$ 1,000,000 / each accident	Flood Zone A Properties	
(Claims Made Retro Date 6-1-95)	\$ 1,000,000 / each claim	Municipal Court	\$ 220,000 / building
Employment Practices Liability*	\$ 5,000,000 / aggregate	City Hall, Library	\$ 116,900 / contents
(Claims Made Retro Date 6-1-95)	\$ 5,000,000 / each wrongful act		\$ 500,000 / each building
Healthcare Professional (for EMTs)*	\$ 2,000,000 / aggregate		\$ 500,000 / contents each
(Claims Made Retro Date 6-1-95)	\$ 2,000,000 / each person		(\$5,000 deductible)
Employee Benefits Liability*	\$ 2,000,000 / aggregate	Contractors Equipment (actual cash value)	\$ 6,364,699 / \$5,000 deductible
	\$ 1,000,000 each employee	Lab Equipment	\$ 11,300 / \$1,000 deductible
	\$ 3,000,000 aggregate	Employee Hand Tools	\$ 35,000 / \$1,000 deductible
* Liability Claims are Subject to a \$50,000 Self Insurance Retention		Computer Equipment and Peripherals	\$ 5,818,610 / \$1,000 deductible
Employer's Liability	\$ 1,000,000 / each accident	Computer Data and Media	\$ 500,000 / \$1,000 deductible
	\$ 1,000,000 / disease employee	Laptops and Portables -	
	\$ 1,000,000 / disease policy limit	Replacement Cost Coverage	\$ 248,500 / \$1,000 deductible
Worker's Compensation	Statutory	Fine Arts Exhibition Floater	\$ 25,000 / each location
		City Hall, Visitor Center, Airport Terminal	\$1,000 deductible
Excess Liability #1 Following Form Over General Liability, Auto, Law Enforcement, Public		Boiler and Machinery	\$ 25,000,000 / \$5,000 deductible
Entity Management, Employee Benefits Liability	\$ 20,000,000 / each occurrence		
	Wrongful Act / aggregate	Crime:	
(Excludes Employment Practices and Healthcare Professional)		Blanket Public Employees and Treasurer	\$ 1,000,000 / \$5,000 deductible
Excess Liability #2 Following Form Over Excess Liability # 1		Dishonesty Bond Including Faithful Performance of Duty	
Excluding Discrimination, Employment-related	\$ 5,000,000 / each occurrence	Computer Fraud	\$ 250,000 / \$5,000 deductible
Practices, and Failure to supply.	Wrongful Act / aggregate	Theft, Disappearance, & Destruction	
		(Inside and Outside)	\$ 5,000 / \$500 deductible
		Aviation:	
		Products/Completed Operations Liability,	\$ 30,000,000 / each occurrence
		Contractual, Construction & Demolition	\$ 30,000,000 / aggregate
		Hangar Keepers Liability	\$ 30,000,000 / each aircraft
			\$ 30,000,000 / each occurrence



City of Flagstaff
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